LIPSCOMB UNIVERSITY

Financial Statements

May 31, 2009 and 2008

(With Independent Auditors' Report Thereon)

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

LIPSCOMB UNIVERSITY

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

INDEPENDENT AUDITORS' REPORT

The Board of Trustees of
Lipscomb University:

We have audited the accompanying statements of financial position of Lipscomb University (the University) as of May 31, 2009 and 2008, and the related statements of activities and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lipscomb University as of May 31, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Lattimore Black Morgan + Cain, PC

Brentwood, Tennessee
September 30, 2009

LIPSCOMB UNIVERSITY

Statements of Financial Position

May 31, 2009 and 2008

Assets

	2009	2008
Assets:		
Cash and cash equivalents	$ 1,367,581	$ 1,613,344
Accounts receivable, net	2,185,685	1,465,120
Investments, excluding real estate	58,722,812	96,373,650
Real estate investments	12,711,122	11,749,785
Prepaid expenses and other assets	1,450,867	2,921,696
Cash value of life insurance policies	1,963,899	2,165,790
Student loans receivable	2,456,830	2,521,710
Property and equipment, net	112,693,730	103,095,947
	$ 193,552,526	$ 221,907,042

Liabilities and Net Assets

	2009	2008
Liabilities:		
Current portion of notes and loans payable	$ 2,918,931	$ 1,913,391
Current portion of bonds payable	1,500,000	2,100,000
Student accounts and dormitory deposits collected in advance	3,829,020	2,725,031
Accounts payable	1,587,760	3,115,362
Accrued expenses and liabilities	14,312,043	7,208,724
Deferred revenue	1,019,253	999,184
Actuarial liability for annuities payable	2,737,853	3,436,515
Notes and loans payable, excluding current portion	3,298,528	4,484,575
Bonds payable, excluding current portion	72,160,000	73,660,000
Accrued postretirement benefit obligation	4,761,024	4,706,989
Federal student loans refundable	2,182,136	2,188,103
Total liabilities	110,306,548	106,537,874
Net assets:		
Unrestricted:		
Undesignated	5,492,069	5,295,069
Designated for student loans	288,624	288,568
Funds functioning as endowment	7,562,752	34,881,361
Designated for pension and postretirement benefit plans	(6,291,854)	(3,191,474)
Designated for plant facilities	(7,021,221)	(1,576,612)
Total unrestricted	30,370	35,696,912
Temporarily restricted	50,814,746	48,032,518
Permanently restricted	32,400,862	31,639,738
Total net assets	83,245,978	115,369,168
	$ 193,552,526	$ 221,907,042

See accompanying notes to the financial statements.

LIPSCOMB UNIVERSITY

Statements of Activities and Changes in Net Assets

Years ended May 31, 2009 and 2008

	2009	2008
Changes in unrestricted net assets:		
Revenues and other support:		
Tuition and education fees	$ 62,010,156	$ 52,349,165
Less financial aid	(13,753,930)	(11,948,835)
Net tuition and fees	48,256,226	40,400,330
Private gifts	1,599,292	1,990,990
Investment/endowment loss, net	(20,991,383)	(652,884)
Auxiliary enterprises revenue	12,403,572	11,202,074
Increase in cash value of life insurance	62,951	100,644
Rental income	747,567	795,997
Other income	1,836,985	1,185,285
Satisfaction of restrictions	4,385,888	5,171,999
Total revenues and other support	48,301,098	60,194,435
Expenses:		
Instruction	28,299,999	24,732,722
Institutional support	19,897,945	16,128,788
Student services	12,513,639	11,784,501
Auxiliary enterprises	9,898,534	7,102,985
Academic support	7,689,993	8,998,879
Public services	1,089,769	871,897
Loss on interest rate swap agreements	4,577,761	2,783,975
Total expenses	83,967,640	72,403,747
Decrease in unrestricted net assets	(35,666,542)	(12,209,312)
Changes in temporarily restricted net assets:		
Private gifts	4,541,525	4,294,776
Adjustments of actuarial liability for annuities payable	644,976	39,455
Investment income (loss), net	(2,386,076)	720,164
Other income	868,963	1,096,852
Government and other grants	3,463,770	806,012
Net assets released from restrictions	(4,350,930)	(5,006,556)
Increase in temporarily restricted net assets	2,782,228	1,950,703
Changes in permanently restricted net assets:		
Private gifts	1,241,239	1,721,022
Investment income (loss), net	(431,585)	306,671
Adjustments of actuarial liability for annuities payable	(13,572)	(73,098)
Net assets released from restrictions, including changes in value of split interest agreements	(34,958)	(165,443)
Increase in permanently restricted net assets	761,124	1,789,152
Decrease in net assets	(32,123,190)	(8,469,457)
Net assets at beginning of year	115,369,168	123,838,625
Net assets at end of year	$ 83,245,978	$ 115,369,168

See accompanying notes to the financial statements.

LIPSCOMB UNIVERSITY

Statements of Cash Flows

Years ended May 31, 2009 and 2008

	2009	2008
Cash flows from operating activities:		
Decrease in net assets	$ (32,123,190)	$ (8,469,457)
Adjustments to reconcile decrease in net assets to cash flows provided (used) by operating activities:		
Depreciation and amortization	5,816,555	4,924,647
Provision for uncollectible accounts	105,105	125,147
Loss on interest rate swap agreements	4,577,761	2,783,975
Loss on disposal of property and equipment	-	737,768
Net loss on investments	23,811,903	3,315,054
Gifts restricted for investments and plant facilities	(5,782,764)	(6,028,947)
Non-cash gifts of securities and real estate	-	(699,055)
(Increase) decrease in operating assets:		
Accounts receivable	(825,670)	(799,387)
Prepaid expenses and other assets	1,470,829	(1,335,970)
Increase (decrease) operating liabilities:		
Student accounts and dormitory deposits collected in advance	1,103,989	(259,921)
Accounts payable	(1,527,602)	1,540,787
Accrued expenses and liabilities	7,103,319	2,167,074
Deferred revenue	20,069	312,333
Actuarial liability for annuities payable	(698,662)	(117,389)
Accrued postretirement benefit obligation	54,035	(34,544)
Total adjustments	35,228,867	6,631,572
Net cash provided (used) by operating activities	3,105,677	(1,837,885)
Cash flows from investing activities:		
Purchases of plant facilities	(15,341,327)	(24,125,307)
Proceeds from sale of investments	45,690,334	108,268,250
Purchases of investments	(36,200,483)	(98,259,848)
Proceeds from sale of real estate investments	-	165,681
Purchase of real estate investments	(1,263,025)	(1,380,597)
Net increase (decrease) in federal student loans refundable	(5,967)	6,328
Collection (disbursements) of student loans, net	64,880	(216,212)
Decrease in cash value of life insurance policies	201,891	848,437
Net cash used by investing activities	(6,853,697)	(14,693,268)
Cash flows from financing activities:		
Proceeds from notes and loans payable	-	2,383,966
Payments of notes and loans payable	(180,507)	(2,050,000)
Proceeds from bonds payable	-	11,160,000
Payments of bonds payable	(2,100,000)	(1,900,000)
Gifts restricted for investments and plant facilities	5,782,764	6,028,947
Net cash provided by financing activities	3,502,257	15,622,913
Decrease in cash and cash equivalents	(245,763)	(908,240)
Cash and cash equivalents at beginning of year	1,613,344	2,521,584
Cash and cash equivalents at end of year	$ 1,367,581	$ 1,613,344

See accompanying notes to the financial statements.

(1) Nature of operations

Lipscomb University (the University) is a private, not-for-profit, co-educational, church-related university of approximately 3,400 students seeking undergraduate and graduate degrees. The University also provides pre-kindergarten through high school education for approximately 1,300 additional students. The President and the Board of Trustees, the governing board of the University, have oversight responsibility for all of the University's financial affairs.

(2) Summary of significant accounting policies

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

(a) Basis of presentation

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

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

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

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

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

Designated for pension and postretirement benefit plans - Represents the benefit obligations in excess of plan assets related to the pension and postretirement benefit plans (see Notes 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 $37,767,740 and $33,557,457 at May 31, 2009 and 2008, respectively, are included in temporarily restricted net assets.

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

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

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

(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, analyses of accounts receivable by payor source and aging of receivables, as well as review of specific accounts, and makes adjustments in the allowance as necessary. A late payment fee is assessed when a student has not made financial arrangements to pay their account balance in full. Interest charges are applied to accounts in internal collections. Accounts are sent to collection agencies or attorneys after the University has exhausted all other efforts in collecting the balance.

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

(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 a gift. Investment income reported in the statements of activities includes interest, dividends, and realized and unrealized gains and losses, net of investment expenses. Investment income 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 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 and permanently restricted net assets unless otherwise specified by the donor.

The University's spending policy allows for a 5.5% annual draw from endowment earnings. Earnings drawn from funds functioning as endowment are unrestricted in purpose. The use of earnings drawn from restricted endowment funds is restricted as stipulated in the donor agreements. During 2009 and 2008, the Board of Trustees authorized additional draws of $1,946,026 and $2,617,786, respectively.

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 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) Life income and gift annuities

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

The University is the named trustee for certain estates and trusts of friends of the University and currently pays the trust income to the named beneficiaries. In such cases where the University is not the sole beneficiary, only the University's portion is included in these financial statements. As of May 31, 2009 and 2008, assets under such split-interest agreements total $825,243 (net of liabilities of $454,043) and $1,185,404 (net of liabilities of $645,788), respectively, and are included in investments on the statements of financial position.

(h) Capitalized interest

The University capitalizes interest costs related to debt incurred in conjunction with various construction projects (see Note 8).

(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.

(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 $459,030 and $407,925 for the years ended May 31, 2009 and 2008, 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 Government under the Federal Perkins Loan program are loaned to qualified students and may be reloaned after collection. These funds are ultimately refundable to the Government and are therefore recorded as liabilities.

(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, 2009 and 2008, the University had received current intentions to give future gifts of approximately $3,807,000 and $7,326,000, respectively, which will be primarily restricted for construction projects 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 $2,300,408 and $2,191,813 in 2009 and 2008, 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 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) New accounting standards

The Uniform Prudent Management Institutional Funds Act was enacted in Tennessee effective July 1, 2007. In connection with this act, the Financial Accounting Standards Board (FASB) issued FASB Staff Position No. FAS 117-1 *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* (FSP FAS 117-1) in August 2008. FSP FAS 117-1 is effective for years ending after December 15, 2008; therefore, the University's 2009 fiscal year financial statements reflect the adoption of this accounting standard (see Note 16).

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109* (FIN 48), which clarifies the accounting for uncertainty in income taxes. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FASB has required implementation of FIN 48 for fiscal years beginning after December 15, 2008. Accordingly, the University currently accounts for uncertain tax positions, if any, in accordance with FASB Statements No. 109, *Accounting for Income Taxes* and No. 5, *Accounting for Contingencies* in its financial statements. In management's opinion, adoption of FIN 48 will not have a significant impact on the University's financial statements.

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, *Disclosures about Derivative Instruments and Hedging Activities* (SFAS 161). SFAS 161 requires enhanced disclosures about an entity's derivative and hedging activities and thereby improves the transparency of financial reporting. SFAS 161 is effective for financial statements issued for fiscal years beginning after November 15, 2008.

(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. One insurance company, which is rated A (Excellent) by A.M. Best, holds approximately 39% and 47%, respectively, of the cash value of life insurance policies owned by the University as of May 31, 2009 and 2008.

(4) Accounts receivable

A summary of accounts receivable as of May 31, 2009 and 2008 is as follows:

	2009	2008
Student accounts receivable	$ 1,834,729	$ 1,794,828
Other accounts receivable	1,191,686	470,292
Subtotal	3,026,415	2,265,120
Less allowance for uncollectible accounts	(840,730)	(800,000)
Accounts receivable, net	$ 2,185,685	$ 1,465,120

Other accounts receivable includes amounts due from Federal award programs of $885,307 and $102,728 at May 31, 2009 and 2008, respectively.

(5) Investments

A summary of investments as of May 31, 2009 and 2008 is as follows:

	2009	2008
Short-term investments	$ 2,704,251	$ 13,113,969
Mutual funds	34,984,149	50,198,300
Marketable equity securities	16,048,614	23,918,057
Corporate bonds and government securities	113,990	2,572,831
Limited partnership interests in equity securities	4,746,436	6,407,509
Other	125,372	162,984
	$ 58,722,812	$ 96,373,650

Investments of approximately $8,200,000 at May 31, 2008 were restricted for construction and related expenditures in connection with the Educational Facilities Revenue Refunding Bonds, (Lipscomb University Project) Series 2006 and 2008 (see Note 11). There was no restriction on investments for these purposes at May 31, 2009 .

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, 2009 and 2008:

	2009	2008
Interest and dividends	$ 1,061,075	$ 4,788,558
Unrealized loss on investments, net	(19,828,372)	(4,899,962)
Realized gain (loss) on investments, net	(3,983,531)	1,584,908
Payments to beneficiaries	(837,155)	(871,084)
Investment management fees	(221,061)	(228,469)
	$ (23,809,044)	$ 373,951

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

	2009	2008
Unrestricted, including funds functioning as endowment	$ (20,991,383)	$ (652,884)
Temporarily restricted	(2,386,076)	720,164
Permanently restricted	(431,585)	306,671
	$ (23,809,044)	$ 373,951

(6) Fair value measurements

As of June 1, 2008, the University adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 clarifies the definition of fair value, establishes a framework for measuring fair value and expands the disclosures for fair value measurement. The 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 provisions of SFAS 157 are effective prospectively for periods beginning January 1, 2008 for financial assets. The three levels of the fair value hierarchy under SFAS 157 are described below:

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

Level 2 - Inputs to the valuation methodology include:
- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

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

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

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

The following is a description of the valuation methodologies used for asset measurement measured at fair value. There have been no changes in the methodologies used at May 31, 2009 and 2008.

(i) *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.

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

(iv) *Limited partnerships*: Valued at fair value based on the beginning of year value of the University's interest plus actual contributions and allocated investment income less actual distributions and allocated administrative expenses.

(v) *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 table sets forth by level, within the fair value hierarchy, the University's financial instruments at fair value as of May 31, 2009:

	Fair Value Measurements as of May 31, 2009 using the following inputs			
	Total	Level 1	Level 2	Level 3
Short-term investments	$ 2,704,251	$ 2,704,251	$ -	$ -
Mutual funds, including hedge funds	34,984,149	3,041,017	19,699,970	12,243,162
Marketable equity securities	16,048,614	16,048,614	-	-
Corporate bonds and government securities	113,990	113,990	-	-
Limited partnership interests	4,746,436	-	-	4,746,436
Other	125,372	125,372	-	-
Total investments	$ 58,722,812	$ 22,033,244	$ 19,699,970	$ 16,989,598
Interest rate swaps	$ (7,242,458)	$ -	$ (7,242,458)	$ -

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

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)		
	Limited Partnership Interests	Mutual Funds	Total
Balance at May 31, 2008	$ 4,744,061	$ 16,119,876	$ 20,863,937
Realized gains (losses)	(18,568)	-	(18,568)
Unrealized gains (losses) relating to instruments still held at the reporting date	(1,290,556)	(2,128,745)	(3,419,301)
Purchases, sales, issuances and settlements, net	1,311,499	(1,747,969)	(436,470)
Balance at May 31, 2009	$ 4,746,436	$ 12,243,162	$ 16,989,598

(7) Real estate investments

A summary of real estate investments as of May 31, 2009 and 2008 is as follows:

	2009	2008
Properties adjacent to the University	$ 13,194,438	$ 11,931,410
Properties not adjacent to the University	2,583,896	2,583,896
	15,778,334	14,515,306
Accumulated depreciation on real estate investments	(3,067,212)	(2,765,521)
	$ 12,711,122	$ 11,749,785

Depreciation expense on these properties amounted to $301,691 and $281,148 for the years ended May 31, 2009 and 2008, respectively.

(8) Property and equipment

A summary of property and equipment as of May 31, 2009 and 2008 is as follows:

	2009	2008
Buildings and campus	$ 146,162,899	$ 123,092,622
Computer equipment and software	3,563,204	4,192,602
Furniture, fixtures and office equipment	5,774,504	4,673,148
General equipment	7,561,609	7,119,030
Laboratory equipment	2,890,386	2,295,899
Library books and equipment	6,357,997	6,163,441
Automobiles	380,437	355,337
Construction in progress	9,461,986	20,760,544
	182,153,022	168,652,623
Accumulated depreciation	(69,459,292)	(65,556,676)
	$ 112,693,730	$ 103,095,947

Depreciation expense on these assets amounted to $5,514,864 and $4,643,463 for the years ended May 31, 2009 and 2008, respectively.

Capitalized interest on construction projects amounted to $319,837 and $467,972 for the years ended May 31, 2009 and 2008, respectively.

At May 31, 2009, the University had construction contracts related to the facilities mentioned above. These contracts, totaling approximately $816,000, are to be paid at various stages of completion through fiscal year 2010.

The University has retainage related to construction projects of approximately $426,000 and $655,000 at May 31, 2009 and 2008, respectively, which is included in accrued expenses and liabilities.

(9) Line of credit

The University has a $3,000,000 line of credit available with a bank at May 31, 2009, which matures in January 2010. Borrowings bear interest at LIBOR plus 1.5% and are unsecured. The University had no borrowings under this line as of May 31, 2009 or 2008.

(10) Notes and loans payable

A summary of notes and loans payable as of May 31, 2009 and 2008 is as follows:

	2009	2008
Note payable to bank, due October 2012, with interest payable monthly at 5.70%; secured by property.	$ 259,000	$ 314,000
Note payable to bank, due June 2013, with interest payable monthly at a rate based on LIBOR (.81% at May 31, 2009); secured by property.	2,258,459	2,383,966
Note payable to bank, due May 2011, with interest payable monthly at a rate based on LIBOR (.81% at May 31, 2009); unsecured.	3,700,000	3,700,000
Total notes and loans payable	6,217,459	6,397,966
Less current portion	(2,918,931)	(1,913,391)
Notes and loans payable, excluding current portion	$ 3,298,528	$ 4,484,575

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

Year	Amount
2010	$ 2,918,931
2011	1,223,931
2012	223,931
2013	227,931
2014	1,622,735
	$ 6,217,459

(11) Bonds payable

A summary of bonds payable as of May 31, 2009 and 2008 is as follows:

	2009	2008
Educational Facilities Revenue Refunding Bonds Series 2003; due in annual payments of varying amounts through February 2023; bearing interest at a variable rate (2.75% as of May 31, 2009)	$ 32,500,000	$ 34,400,000
Educational Facilities Revenue Bonds Series 2003B; due in annual payments of varying amounts through November 2023; bearing interest at a variable rate (2.75% as of May 31, 2009)	7,000,000	7,200,000
Variable Rate Demand Revenue Bonds Series 2006; due in annual payments of varying amounts through July 2028; bearing interest at a variable rate (2.75% as of May 31, 2009)	23,000,000	23,000,000
Variable Rate Demand Revenue Bonds Series 2008; due in annual payments of varying amounts through October 2027; bearing interest at a variable rate (2.75% as of May 31, 2009)	11,160,000	11,160,000
Total bonds payable	73,660,000	75,760,000
Less current portion	(1,500,000)	(2,100,000)
Bonds payable, excluding current portion	$ 72,160,000	$ 73,660,000

Under the terms of the aforementioned agreements, the University is subject to compliance with certain financial ratios and restrictions including investment, leverage, and cash flow ratios. The University was not in compliance with related minimum investment and maximum leverage covenants as of May 31, 2009; however, the noncompliance was waived by SunTrust Bank and no penalties were assessed against the University. Covenant violations were primarily due to the drop in market value of equity investments due to global economic conditions.

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

Year	Amount
2010	$ 1,500,000
2011	2,910,000
2012	3,030,000
2013	3,285,000
2014	3,805,000
2015 and later years	60,030,000
	$ 74,560,000

During the year, the remarketing agent was unable to sell all of the demand bonds due to the turmoil in financial credit markets; therefore, some bonds were tendered for payment by bondholders and were held by SunTrust Bank at May 31, 2009. On August 1, 2009, the University refinanced all of the bonds through the issuance of Series 2009 variable rate demand revenue refunding bonds in the amount of $74,560,000 by the Health and Education Board of the Metropolitan Government of Nashville and Davidson County, Tennessee and these new bonds were successfully remarketed. The new bond agreement includes revised debt covenants that will be measured beginning November 30, 2009.

The refunding bonds are secured by an irrevocable letter of credit with SunTrust Bank which matures on August 15, 2012. The refunding bonds are also subject to the provisions of a remarketing agreement. Should the University be unable to renew the letter of credit, comply with the terms of the remarketing agreement, or comply with its financial covenants or other provisions of the bond indenture, the principal payments under the refunding bonds could be accelerated or penalties could be assessed to the University.

(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 all its outstanding bond issues. The fair value of the University's swap agreements is reported within the accrued expenses and liabilities on the statements of financial position, and amounted to ($7,242,458) and ($2,664,697) at May 31, 2009 and 2008, respectively.

The first swap agreement was executed in May 2003 for the University's Educational Facilities Revenue Refunding Bonds Series 2003 and also the Educational Facilities Revenue Bonds Series 2003B. This agreement terminates in November 2023 and has an original notional amount of $47,000,000 and a current notional amount of $39,500,000. The fair value of the first agreement is ($2,546,918) and ($477,003) as of May 31, 2009 and 2008, respectively.

The second swap agreement was executed in May 2006 for the University's Variable Rate Demand Revenue Bond Series 2006. This agreement terminates in November 2028 and has an original (and current) notional amount of $23,000,000. The fair value of the second agreement is ($3,907,184) and ($2,117,781) as of May 31, 2009 and 2008, respectively.

The third swap agreement was executed in January 2008 for the University's Variable Rate Demand Revenue Bond Series 2008. This agreement terminates in November 2027 and has an original (and current) notional amount of $11,160,000. The fair value of the third agreement is ($788,356) and ($69,913) as of May 31, 2009 and 2008, respectively.

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

The effective all-in rate of interest (when all three interest variables are combined) of Lipscomb University is 4.96% for fiscal year 2009 and 4.10% for fiscal year 2008.

(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 the employee's compensation, subject to IRS limitations. The University made contributions to the plan of $1,236,362 and $1,133,339 in 2009 and 2008, respectively.

(b) Defined benefit plan

The University has a contributory, defined benefit retirement plan covering certain salaried employees hired prior to August 1, 1990. The University makes annual contributions to the plan according to the actuarial funding agreement. The assets of the plan are primarily invested in United States Government and corporate bonds, equity securities, and mutual funds, which are considered to be Level 1 investments in accordance with the SFAS 157 hierarchy.

The following table sets forth the plan's benefit obligations, fair value of plan assets, and funded status at May 31, 2009 and 2008:

	2009	2008
Fair value of plan assets	$ 5,483,406	$ 7,958,007
Benefit obligation	7,014,236	6,442,492
Funded status	$ (1,530,830)	$ 1,515,515
Prepaid (accrued) benefit cost recognized in the financial statements	$ (1,530,830)	$ 1,515,515

Weighted-average assumptions used to determine benefit obligations at May 31, 2009 and 2008 were as follows:

	2009	2008
Discount rate	6.0 %	6.0 %
Rate of compensation increase	5.0 %	5.0 %

Weighted-average assumptions used to determine net cost for the years ended May 31, 2009 and 2008 were as follows:

	2009	2008
Discount rate	6.0 %	6.0 %
Expected long-term rate of return on plan assets	8.0 %	8.0 %
Rate of compensation increase	5.0 %	5.0 %

A summary of other information related to this plan for 2009 and 2008 is as follows:

	2009	2008
Pension income (expense)	$ 423,635	$ 385,596
Benefits paid	$ 276,484	$ 203,751

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

Year	Amount
2010	$ 446,475
2011	561,811
2012	428,880
2013	432,939
2014	342,633
2015 through 2019	1,830,005

The plan weighted-average asset allocations at May 31, 2009 and 2008 by asset category are as follows:

Asset Category	2009	2008
Equity securities	62.8 %	66.3 %
Fixed income	10.2 %	10.4 %
Other	27.0 %	23.3 %
Total	100.0 %	100.0 %

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

Group health insurance

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

Postretirement benefit plan

Certain of the University's employees or former employees are covered under a postretirement benefit plan. At May 31, 2009, the University's portion of the members covered by the plan included approximately 120 retirees. Lifetime claims of an individual in excess of $2,000,000 are the obligation of the retiree. Total costs of the plan were $347,166 and $346,666 in 2009 and 2008, respectively. The employer 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 will have to fund the full premium.

The following presents the plan's funded status reconciled with amounts recognized in the University's statement of financial position as of May 31, 2009 and 2008:

	2009	2008
Accrued postretirement benefit obligation:		
For retirees	$ 2,676,082	$ 2,858,320
For active employees	2,084,942	1,848,669
Funded status/accrued postretirement benefit obligation	$ 4,761,024	$ 4,706,989

Net periodic postretirement benefit costs for 2009 and 2008 include the following components:

	2009	2008
Service cost	$ 27,482	$ 28,031
Interest cost	276,289	273,568
Recognized prior service (income) cost	(35,139)	(35,139)
Recognized net (gains) losses	78,534	80,206
Net periodic postretirement benefit cost	$ 347,166	$ 346,666

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

Year	Amount
2010	$ 294,200
2011	313,000
2012	333,000
2013	354,100
2014	376,500
2015 through 2019	2,267,200

The disclosures above were determined through actuarial valuation. For measurement purposes at May 31, 2009, a 6.5% 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 6.0% at May 31, 2009.

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 $739,949 and $538,268 at May 31, 2009 and 2008, respectively, and would increase the net periodic postretirement benefit cost by $39,784 in 2009 and $29,759 in 2008.

(15) Net assets

Temporarily restricted net assets as of May 31, 2009 and 2008 are committed for the following purposes:

	2009	2008
Annuity and life income funds which convert to unrestricted net assets upon maturity	$ 3,007,386	$ 5,495,950
Scholarships and instruction	9,224,207	8,169,044
Capital improvements	37,767,740	33,557,457
Other programs	815,413	810,067
	$ 50,814,746	$ 48,032,518

Permanently restricted net assets are held in perpetuity with the income from assets expendable to support certain programs. A summary of the permanently restricted net assets by the program for which the related income is expendable as of May 31, 2009 and 2008 is as follows:

	2009	2008
Investments to be held in perpetuity, the income from, which is expendable for both specific and general purposes	$ 32,285,968	$ 31,149,887
Annuity and life income funds, which will be held in perpetuity upon maturity	114,894	489,851
	$ 32,400,862	$ 31,639,738

(16) Endowment

The University's endowment consists of approximately 470 individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

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

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

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

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

The endowment pool market value to net asset analysis as of May 31, 2008 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment pool				
Donor-restricted	$ -	$ 12,415,844	$ 31,448,871	$ 43,864,715
Board-designated	34,881,361	-	-	34,881,361
	34,881,361	12,415,844	31,448,871	78,746,076
Other net assets	815,551	35,616,674	190,867	36,623,092
Total	$ 35,696,912	$ 48,032,518	$ 31,639,738	$ 115,369,168

Changes in endowment net assets for the fiscal year ended May 31, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, May 31, 2008	$ 34,881,361	$ 12,415,844	$ 31,448,871	$ 78,746,076
Investment return:				
Investment income	354,803	56,900	320,604	732,307
Net depreciation (realized and unrealized)	(22,501,421)	(2,703,326)	(736,432)	(25,941,179)
Total investment return	(22,146,618)	(2,646,426)	(415,828)	(25,208,872)
Contributions	-	350,000	1,297,130	1,647,130
Appropriation of endowment assets for expenditure	(5,930,867)	1,862,342	-	(4,068,525)
Transfers to board-designated endowment	758,876	-	-	758,876
Endowment net assets, May 31, 2009	$ 7,562,752	$ 11,981,760	$ 32,330,173	$ 51,874,685

(17) 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.

(18) Related party transactions

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

(19) Supplemental disclosures of cash flow statement information

	2009	2008
Approximate interest paid, net of capitalized interest of $319,837 and $467,972 in 2009 and 2008, respectively	$ 3,145,000	$ 2,833,000

(20) Interest expense

Interest expense on notes and loans payable amounted to approximately $288,000 and $26,000 for 2009 and 2008, respectively. Interest expense on the bonds payable amounted to approximately $3,070,000 and $2,670,000 for the years ended May 31, 2009 and 2008, respectively. Total interest expense was approximately $3,358,000 and $2,695,000 for 2009 and 2008, respectively.

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

While the accompanying financial statements are prepared in accordance with Statements of Financial Accounting Standards (SFAS) No. 117, Financial Statements for Not-for-Profit Organizations, the underlying accounts are kept on a fund accounting basis, in order to monitor the University's fiduciary responsibilities on a more detailed basis. A reconciliation of the results between the change in unrestricted net assets and the fund accounting basis is as follows:

	2009	2008
Decrease in unrestricted net assets	$ (35,666,542)	$ (12,209,312)
Depreciation expense	5,514,076	4,643,463
Investment (income) loss	27,541,604	6,678,637
Capitalized expenditures from current funds	(1,449,679)	(820,727)
Principal debt repayments from current funds	(2,280,507)	(1,950,000)
Plant gift amortization	(1,099,526)	(1,472,039)
Loss on disposal of fixed assets	-	737,768
Gifts to LU2010 plan	(111,325)	(568,500)
Gifts to Quasi endowment	(155,000)	(235,505)
Expenditures for LU2010 initiatives	91,791	1,994,052
EPA Audit preparation requirements	-	103,259
Non-cash retirement plan adjustments	3,100,380	396,242
Interest rate swap agreement	4,577,761	2,783,975
Other	57,707	28,218
Current unrestricted operating fund surplus - fund accounting basis	$ 120,740	$ 109,531