POINT LOMA NAZARENE UNIVERSITY

POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

Combined Financial Statements
With Independent Auditors' Report

June 30, 2012 and 2011

CAPINCROUSE LLP
Certified Public Accountants

POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

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CAPINCROUSE LLP
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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Point Loma Nazarene University and Affiliate
San Diego, California

We have audited the accompanying combined statements of financial position of Point Loma Nazarene University and Affiliate as of June 30, 2012 and 2011, and the related combined statements of activities and cash flows for the years then ended. These combined financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these combined 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 combined 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 University's 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 combined financial statements, assessing the accounting principles used, and significant estimates made by management, as well as evaluating the overall combined financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Point Loma Nazarene University and Affiliate as of June 30, 2012 and 2011, and the changes in their net assets and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Capin Crouse LLP

San Diego, California
October 16, 2012

POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

Combined Statements of Financial Position

	June 30, 2012	June 30, 2011
ASSETS:		
Cash and cash equivalents	$ 13,621,423	$ 14,623,494
Marketable securities	43,447,515	39,881,169
Student receivables, less allowance of $722,246 and $727,762 at June 30, 2012 and 2011, respectively	1,751,692	1,997,056
Accounts receivable	471,679	641,705
Notes receivable, less allowance of $59,538 and $64,231 at June 30, 2012 and 2011, respectively	3,854,920	3,970,502
Other assets	1,956,290	1,415,656
Equity participation notes receivable	5,561,543	5,866,333
Trust deed note receivable	-	107,800
Bond issuance costs, net of amortization	532,736	344,744
Investments in real estate	9,556,692	8,919,659
Construction in progress	1,950,851	1,341,707
Property, plant, and equipment, net of depreciation	71,010,325	71,816,194
Total Assets	$ 153,715,666	$ 150,926,019
LIABILITIES AND NET ASSETS:		
Liabilities:		
Accounts payable	$ 2,136,993	$ 1,852,119
Construction payable	559,129	-
Accrued expenses and other liabilities	3,336,408	3,306,249
Amounts held for others	1,235,176	1,010,673
Deposits and deferred revenue	2,423,073	3,352,240
Charitable trusts and annuities payable	1,609,845	1,624,448
Fair value of swap agreement liability	9,499,048	6,177,313
Federal student loan obligations	3,395,039	3,336,353
Capital lease obligation	-	112,200
Long-term debt	32,116,149	33,020,089
	56,310,860	53,791,684
Net assets:		
Unrestricted	70,144,134	70,895,575
Temporarily restricted	8,402,433	8,524,962
Permanently restricted	18,858,239	17,713,798
	97,404,806	97,134,335
Total Liabilities and Net Assets	$ 153,715,666	$ 150,926,019

See notes to combined financial statements

POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

Combined Statements of Activities

	Year Ended June 30,							
	2012				2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE, SUPPORT, AND RECLASSIFICATIONS:								
Student tuition and fees	$ 76,059,114	$ -	$ -	$ 76,059,114	$ 74,036,721	$ -	$ -	$ 74,036,721
Less student aid	(16,640,408)	-	-	(16,640,408)	(15,957,648)	-	-	(15,957,648)
	59,418,706	-	-	59,418,706	58,079,073	-	-	58,079,073
Auxiliary services	15,333,682	-	-	15,333,682	15,175,755	-	-	15,175,755
Private gifts and grants	2,327,396	1,026,708	1,144,441	4,498,545	2,101,670	1,337,160	631,791	4,070,621
Income on long-term investments	451,229	306,081	-	757,310	536,399	312,365	-	848,764
Other income	3,971,288	-	-	3,971,288	3,775,265	43,776	-	3,819,041
	81,502,301	1,332,789	1,144,441	83,979,531	79,668,162	1,693,301	631,791	81,993,254
Net assets released from restrictions	1,345,138	(1,345,138)	-	-	1,655,406	(1,655,406)	-	-
Total Revenue, Support, and Reclassifications	82,847,439	(12,349)	1,144,441	83,979,531	81,323,568	37,895	631,791	81,993,254
OPERATING EXPENSES:								
Instruction	22,291,759	-	-	22,291,759	22,233,918	-	-	22,233,918
Academic support	10,447,759	-	-	10,447,759	9,955,388	-	-	9,955,388
Student development	12,533,581	-	-	12,533,581	12,036,127	-	-	12,036,127
Institutional support	19,010,569	-	-	19,010,569	17,866,844	-	-	17,866,844
Operation and maintenance of plant	6,837,167	-	-	6,837,167	6,382,589	-	-	6,382,589
Auxiliary services	7,342,568	-	-	7,342,568	7,047,509	-	-	7,047,509
Other expenses	1,368,395	-	-	1,368,395	1,083,901	-	-	1,083,901
Organized research	396,642	-	-	396,642	217,280	-	-	217,280
Total Expenses	80,228,440	-	-	80,228,440	76,823,556	-	-	76,823,556
Change in Net Assets from Operations	2,618,999	(12,349)	1,144,441	3,751,091	4,500,012	37,895	631,791	5,169,698
Other Changes in Non-Operating Activities:								
Net unrealized gain (loss) on investments	(168,714)	(352,026)	-	(520,740)	54,083	724,703	-	778,786
Net realized gain on investments	49,753	241,846	-	291,599	247,687	916,970	-	1,164,657
Trust and annuity actuarial gain	70,255	-	-	70,255	278,106	-	-	278,106
Adjustment to swap agreement liability	(3,321,734)	-	-	(3,321,734)	1,032,712	-	-	1,032,712
Change in Net Assets	(751,441)	(122,529)	1,144,441	270,471	6,112,600	1,679,568	631,791	8,423,959
Net Assets, Beginning of Year	70,895,575	8,524,962	17,713,798	97,134,335	64,782,975	6,845,394	17,082,007	88,710,376
Net Assets, End of Year	$ 70,144,134	$ 8,402,433	$ 18,858,239	$ 97,404,806	$ 70,895,575	$ 8,524,962	$ 17,713,798	$ 97,134,335

See notes to combined financial statements

POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

Combined Statements of Cash Flows

	Year Ended June 30, 2012	Year Ended June 30, 2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 270,471	$ 8,423,959
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	3,925,294	3,906,695
Net realized and unrealized loss (gain) on investments	154,304	(1,943,443)
Gift-in-kind contributions	-	(95,890)
Increase in provision for doubtful accounts	9,415	19,439
Capitalization of bond issuance costs	(226,291)	-
Loss on equity participation notes receivable	39,282	45,176
Forgiveness of equity participation notes receivable	-	87,500
Adjustment to actuarial liability for annuities	(14,603)	(190,062)
Restricted capital contributions	(1,470)	(171,338)
Adjustment to swap agreement liability	3,321,735	(1,032,712)
Net change in:		
Student and accounts receivable	415,390	437,799
Notes receivable	106,167	(60,360)
Other assets	(540,634)	(410,760)
Accounts payable	284,874	302,202
Accrued expenses and other liabilities	30,159	67,446
Amounts held for others	224,503	30,599
Deposits and deferred revenue	(929,167)	760,892
Federal student loan obligations	58,686	91,321
Net Cash Provided by Operating Activities	7,128,115	10,268,463
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant, and equipment	(3,131,141)	(3,174,786)
Sales of marketable securities	2,406,711	-
Purchases of marketable securities	(6,127,361)	(2,501,782)
Net proceeds from sale of real estate	154,869	220,496
Purchase of real estate	(791,902)	(938,400)
Issuance of equity participation notes receivable	-	(576,500)
Collections on notes receivable	373,308	408,058
Net Cash Used in Investing Activities	(7,115,516)	(6,562,914)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on long-term debt	(903,940)	(867,842)
Payments on capital lease obligation	(112,200)	(67,395)
Restricted capital contributions	1,470	171,338
Net Cash Used in Financing Activities	(1,014,670)	(763,899)
Change in Cash and Cash Equivalents	(1,002,071)	2,941,650
Cash and Cash Equivalents, Beginning of Year	14,623,494	11,681,844
Cash and Cash Equivalents, End of Year	$ 13,621,423	$ 14,623,494
SUPPLEMENTAL INFORMATION:		
Cash paid during the year for interest (none capitalized)	$ 1,475,717	$ 1,731,371
Capital additions acquired construction payable	$ 559,129	$ -

See notes to combined financial statements

1. NATURE OF ORGANIZATION:

Point Loma Nazarene University (PLNU), formerly Pasadena College, was established in 1902 (incorporated in 1918) in California. PLNU is a selective, Christian liberal arts university located in San Diego, California, with graduate program regional centers throughout Southern California. Home to approximately 2,400 undergraduates and 1,100 graduate students, PLNU is committed to teaching, shaping, and sending its students into the world to make a positive difference.

PLNU is a nonprofit, public benefit corporation exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the Code). As such, it is also exempt from state income taxes. The primary source of revenue for PLNU is tuition and fee income from students. PLNU has been classified as a publicly supported organization, which is not a private foundation, under section 509(a) of the Code. Contributions by the public are deductible for income tax purposes.

PLNU is accredited by the Western Association of Schools and Colleges (WASC).

Point Loma Nazarene University Foundation (the Foundation), formerly Pasadena College Foundation, was incorporated in 1965. It exists to support the investment and fundraising activities of PLNU. The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Code and is not a private foundation under Section 509(a) of the Code.

PRINCIPLES OF COMBINATION

The reporting entity includes PLNU and the Foundation (collectively referred to as the University).

The financial statements of the Foundation are combined into the financial statements of PLNU because PLNU controls the Foundation through economic interests and by way of electing the board of directors. All significant intercompany transactions have been eliminated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The combined financial statements of the University have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. A summary of significant accounting policies followed are described below to enhance the usefulness of the combined financial statements to the reader.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand, cash on deposit, and money market accounts. The University considers short-term highly liquid investments with a maturity date of three months or less from the date of purchase that are not part of an investment pool to be cash equivalents. The University invests its excess cash in various types of short-term investments. The University has established guidelines relative to diversification and maturities that maximize safety and liquidity. These guidelines are periodically reviewed and modified to take advantage of trends in yields and interest rates. These accounts often exceed federally insured limits. However, the University has not experienced any losses in such accounts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

MARKETABLE SECURITIES

Marketable equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the combined statements of financial position. Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included in the combined statements of activities.

STUDENT AND ACCOUNTS RECEIVABLE

Student and accounts receivable are reported net of any anticipated losses due to uncollectible accounts. The University's policy for determining when receivables are past due is if an account balance remains unpaid after the semester deadline. A finance charge is assessed on past due balances, and students are not permitted to register for subsequent semesters until all past due amounts are paid. Uncollectible accounts are written off to bad debt expense in the period they become uncollectible.

The allowance for doubtful accounts is maintained at a level which, in management's judgment, is adequate to absorb potential losses inherent in the receivable portfolio. The amount of the allowance is based on management's evaluation of the collectability of the receivable portfolio, including the age of the receivable, the history for each students account balance, and economic conditions. This process is based on estimates, and ultimate losses may vary from current estimates. As changes in estimates occur, adjustments to the level of the allowance are recorded in the provision for doubtful accounts in the period in which they become known.

PROPERTY, PLANT, AND EQUIPMENT

Land, buildings, equipment, and library books are stated at cost at date of acquisition or fair market value at date of donation in the case of gifts. Depreciation is computed by the straight-line method with estimated useful lives as follows:

Buildings	60 years
Building renovations	40 years
Library books	15 years
Building and land improvements	10 years
Equipment	5 – 10 years

BOND ISSUANCE COSTS

Bond issuance costs are amortized on a straight-line basis over the term of the related outstanding bonds and are reported net of accumulated amortization. Bond issuance cost amortization totaled $38,299 and $15,640 for each of the years ended June 30, 2012 and 2011, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

CHARITABLE TRUSTS AND ANNUITIES PAYABLE

Annuities are paid to individuals who have entered into annuity contracts with the University. Standard annuity tables are used to estimate the present value of future payments due to annuitants based on the annuitant's age and gender, the frequency and amount of payment, and the principal amount of the annuity. This present value calculation (also called the reasonable commensurate value) represents a liability of the University and is adjusted each year based on the expected remaining life of the annuitant. Upon the death of the annuitant, any remaining reasonable commensurate value is recognized as, and included in, contributions in the appropriate net asset classification on the combined statements of activities. For the years ended June 30, 2012 and 2011, there was $0 and $180,421, respectively of such income recognized.

FEDERAL STUDENT LOAN OBLIGATIONS

Student loans consist of federal and private donated funds loaned to students. Private donated funds are recorded as temporarily restricted net assets. Federal funds are recorded as a liability. In accordance with the Federal Perkins and Federal Nursing loan agreements, the University contributes a portion of its operating fund to the Federal loan programs. In general, the University's contribution is equal to approximately 10% of the total federal loan balance.

NET ASSETS

The combined financial statements report amounts by class of net assets:

Unrestricted net assets amounts are those currently available at the discretion of the board for use in the University's operations and those resources invested in property, plant, and equipment.

Temporarily restricted net assets contain donor-imposed restrictions that request the University to use or expend the assets as specified. These restrictions are satisfied either by the passage of time or by actions of the University.

Permanently restricted net assets contain donor-imposed restrictions and stipulate that the resources be maintained permanently but permit the University to use or expend part or all of the income derived from the donated assets for either specified or unspecified purposes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

PUBLIC SUPPORT, REVENUE, AND EXPENSES
Contributions are recorded when cash or unconditional promises-to-give have been received or ownership of donated assets is transferred to the University. The University records contributions as temporarily restricted if they are received with donor stipulations that limit their use either through purpose or time restrictions, or both. When donor restrictions expire, that is, when the purpose restriction is fulfilled or the time restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the combined statements of activities as net assets released from restrictions.

Contributions of cash or other assets to be used to acquire land, buildings, and equipment with such donor stipulations are reported as revenues of the temporarily restricted net assets class. The restrictions are considered to be released at the time of acquisition of such long-lived assets.

The University records tuition and other fees as earned. Tuition revenue is earned once the tuition is no longer refundable. Traditional school terms end prior to fiscal year-end. For non-traditional programs, revenue is pro-rated between fiscal years using straight-line proportional method.

FUNCTIONAL ALLOCATION OF EXPENSES
The costs of providing various program services and supporting activities of the University have been summarized on a functional basis in note 11. Accordingly, certain costs such as payroll and benefits have been allocated among the program services and supporting activities benefited based on management estimates of program usage.

USE OF ESTIMATES
The preparation of combined 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 amounts reported in the combined financial statements and accompanying notes. Actual results could differ from those estimates.

ADVERTISING
The University advertises to promote its academic programs as well as various special events occurring on campus. Advertising costs are expensed as incurred. For the years ended June 30, 2012 and 2011, advertising costs were $692,932 and $666,971, respectively.

RECLASSIFICATION
Certain amounts in the 2011 combined financial statements have been reclassified to conform with the 2012 presentation.

3. MARKETABLE SECURITIES:

Marketable securities consist of:

	June 30, 2012	June 30, 2011
Fixed income	$ 15,298,413	$ 11,438,115
Common stocks	13,928,891	12,405,990
Common Fund	2,269,186	2,286,572
Commodities	-	5,482
Installment note receivable	249,564	252,043
Mutual funds	780,262	948,273
Certificates of deposit	8,143,447	10,309,789
Money market funds	2,777,752	2,234,905
	$ 43,447,515	$ 39,881,169

Investment income as reported in the combined statements of activities is net of management fees and loan cancellation costs. Investment fees amounted to approximately $173,000 and $150,000 during the years ended June 30, 2012 and 2011, respectively.

4. CREDIT QUALITY OF FINANCING RECEIVABLES AND ALLOWANCE FOR CREDIT LOSSES:

LOANS RECEIVABLE
As an agent for the federal government, the University's federal loan portfolio is guaranteed by the United States Department of Education. There are, therefore, no impaired loans, no nonperforming loans, and no modifications to loan terms executed by the University because amounts that become old or past due are in due course turned back over to the Department of Education. The federal net share of the loan portfolio is ultimately refundable to the government and is classified as a liability in the combined statements of financial position.

The aging of the loan portfolio by classes of loans as of June 30, 2012, consists of:

	Current	31-90 Days Past Due	91-180 Days Past Due	Greater Than 180 Days	Total Notes Receivable
Student loans - federal	$ 2,682,330	$ 103,849	$ 100,270	$ 307,337	$ 3,193,786
Student loans - institutional	128,375	-	-	-	128,375
Faculty and staff loans	592,297	-	-	-	592,297
	$ 3,403,002	$ 103,849	$ 100,270	$ 307,337	$ 3,914,458
As a percentage of total loan portfolio	36%	1%	1%	3%	41%

Changes in allowance for estimated losses on loans in aggregate for the years ended June 30, 2012, is presented as follows:

	Student loans - institutional	Faculty and staff loans	Total
Beginning balance	$ 6,248	$ 57,983	$ 64,231
Charge-offs	(14,108)	-	(14,108)
Provision	8,168	1,247	9,415
Ending balance	$ 308	$ 59,230	$ 59,538

4. CREDIT QUALITY OF FINANCING RECEIVABLES AND ALLOWANCE FOR CREDIT LOSSES, continued:

The aging of the loan portfolio by classes of loans as of June 30, 2011, consists of:

	Current	31-90 Days Past Due	91-180 Days Past Due	Greater Than 180 Days	Total Notes Receivable
Student loans - federal	$ 2,835,473	$ 94,395	$ 59,450	$ 295,897	$ 3,285,215
Student loans - institutional	169,688	-	-	-	169,688
Faculty and staff loans	568,080	3,503	8,247	-	579,830
	$ 3,573,241	$ 97,898	$ 67,697	$ 295,897	$ 4,034,733
As a percentage of total loan portfolio	36%	1%	1%	3%	41%

Changes in allowance for estimated losses on loans in aggregate for the years ended June 30, 2011, is presented as follows:

	Student loans - institutional	Faculty and staff loans	Total
Beginning balance	$ 13,594	$ 48,222	$ 61,816
Charge-offs	(17,024)	-	(17,024)
Provision	9,678	9,761	19,439
Ending balance	$ 6,248	$ 57,983	$ 64,231

4. CREDIT QUALITY OF FINANCING RECEIVABLES AND ALLOWANCE FOR CREDIT LOSSES, continued:

EQUITY PARTICIPATION NOTES RECEIVABLE
The Housing Co-Investment program is an incentive program designed to help qualifying full-time faculty and staff employees purchase their primary residence.

Equity participation note agreements are entered into with the employees at the discretion of the University's administrative cabinet. The University's maximum investment in any particular property is based on its location, the purchase price, and the participant's annual gross family income. The University holds second trust deeds on the properties and will, in addition to its original investment, share on a pro rata basis any increases or decreases in the market value upon sale of any property.

Equity participation notes receivable are carried at face value net of any anticipated losses due to uncollectible accounts. Allowances for impaired notes receivable are determined based on collateral values or the present value of estimated cash flows. No allowance for doubtful accounts has been recorded against these loans based on their collateralization and prior collection history.

The loan amounts represent 57% and 59% of the total loan portfolio at June 30, 2012 and 2011, respectively. There were no amounts past due at June 30, 2012 and 2011.

TRUST DEED NOTE RECEIVABLE
Trust deed note receivable consists of a note with interest of 6%, interest only payment due semi-annually, due September 2013. The loan was paid during the year ended June 30, 2012.

5. INVESTMENTS IN REAL ESTATE:
Investments in real estate are carried at the lower of cost or fair market value (if the value is considered to be permanently impaired). Investments in real estate consist of:

	June 30,	
	2012	2011
Faculty housing	$ 8,806,387	$ 8,169,354
Other properties	750,305	750,305
	$ 9,556,692	$ 8,919,659

6. PROPERTY, PLANT, AND EQUIPMENT:

Property, plant, and equipment consists of:

	June 30, 2012	June 30, 2011
Land and improvements	$ 6,796,960	$ 6,796,960
Buildings and improvements	107,209,794	105,921,254
Equipment	22,682,182	20,920,732
Library books	5,711,207	5,680,071
	142,400,143	139,319,017
Less accumulated depreciation	(71,389,818)	(67,502,823)
	71,010,325	71,816,194
Construction in progress	1,950,851	1,341,707
Less debt and capital lease obligation secured by property, plant, and equipment	(32,108,649)	(33,124,789)
Net investment in property, plant, and equipment	$ 40,852,527	$ 40,033,112

Depreciation expense totaled $3,886,995 and $3,891,025 for the years ended June 30, 2012 and 2011, respectively.

The total amount of assets recorded under capital lease totaled $545,914 for each of the years ended June 30, 2012 and 2011. Accumulated depreciation of such assets amounted to $489,572 and $454,812 at June 30, 2012 and 2011, respectively.

7. LONG-TERM DEBT:

Long-term debt consists of:

	June 30, 2012	June 30, 2011
Suntrust Leasing Corporation, original amount $1,022,718 secured by equipment. Monthly principal and interest payments of $11,211 (5.72%), due April 2015.	$ 388,649	$ 497,589
ABAG Finance Authority for Nonprofit Corporations (ABAG) Bonds, Series 2008, original amount of $34,000,000. Principal payments are due annually starting on October 1, 2009. Interest is calculated and payable monthly. The interest rate for the month of June 2012 was 1.1492%.	31,720,000	32,515,000
Other unsecured loans	7,500	7,500
	$ 32,116,149	$ 33,020,089

7. LONG-TERM DEBT, continued:

The ABAG bonds are variable rate demand bonds that were backed by a letter of credit. The initial letter of credit expired in November 2011 and was extended until December 20, 2011, when all of the outstanding bonds ($31,720,000) were purchased by Bank of America Merrill Lynch (BAML). The term of this direct purchase is five years. The University pays BAML a monthly interest payment based on a monthly index plus a margin. Principal payments are due each October 1. The bonds are secured by a first deed of trust on the Point Loma campus. The University maintains a derivative interest rate swap agreement to manage exposure to changes in interest rates as described in note 8.

Interest expense totaled $1,504,188 and $1,726,881 for the years ended June 30, 2012 and 2011, respectively. Included in interest expense are bank fees associated with the letter of credit totaling approximately $28,000 and $335,000 for the years ended June 30, 2012 and 2011, respectively. A letter of credit is not required during the term of the direct purchase.

LOAN COVENANT

With respect to the ABAG bonds, BAML requires covenants relating to, among other things, the maintenance of insurance, the maintenance of certain financial ratios, and financial reporting deadlines. As of June 30, 2012, the University was in compliance with all covenants.

Annual maturities are:

Year Ending June 30,	
2013	$ 950,291
2014	997,061
2015	1,049,229
2016	982,107
2017	1,010,000
Thereafter	27,127,461
	$ 32,116,149

8. INTEREST RATE SWAP AGREEMENT:

During the year ended June 30, 2007, the University entered into an interest rate swap agreement to manage the economic effect of variable interest obligations associated with the ABAG bonds described in note 7 so that the interest payable on the debt effectively becomes a fixed rate, thereby reducing the impact of future rate changes on future interest expenses. Under the swap agreement, the University agreed to pay a fixed rate of 4.0986% to the swap provider (Bank of America) over the life of the bonds (25 years) and to receive a variable interest payment based on a percentage of the one-month LIBOR rate. As of June 30, 2010, due to a decline in market interest rates, this agreement had a fair value of ($7,210,025). Effective November 1, 2009, the fixed rate paid to the swap provider was increased to 4.1663% in exchange for a reduction (until October 1, 2014) in the University's collateral posting requirements under the swap. As of June 30, 2012, this agreement had a fair value of ($9,499,048), a change of ($3,321,734) from June 30, 2011 due to a further decline in market interest rates. During June 2012, the variable interest rate received by the University was .43121%, while the rate paid to bondholders was 1.1492%. The notional amount of the swap agreement was $31,720,000 and $32,515,000 on June 30, 2012 and 2011, respectively. The notional amount declines annually and expires on October 1, 2033.

The unrealized losses on this agreement are included in adjustment to swap agreement liability in the combined statements of activities and the corresponding liability is included in fair value of swap agreement liability in the combined statements of financial position.

The effects of derivative instruments on the combined financial statements were as follows as of June 30, 2012 and 2011, and for the years then ended:

FAIR VALUE OF DERIVATIVE INSTRUMENTS IN COMBINED STATEMENTS OF FINANCIAL POSITION

	Statement Location	Fair Value at June 30, 2012	Fair Value at June 30, 2011
Fair value hedge:			
Interest rate cap agreement	Fair value of swap agreement	$ 9,499,048	$ 6,177,313

EFFECTS OF DERIVATIVE INSTRUMENTS ON COMBINED STATEMENTS OF ACTIVITIES

	Statement Location	Gain (loss) for year ending June 30, 2012	Gain (loss) for year ending June 30, 2011
Fair value hedge:			
Interest rate cap agreement	Adjustment to swap agreement	$ (3,321,734)	$ 1,032,712

9. PAYMENTS TO ANNUITANTS AND TRUST BENEFICIARIES:

Payments to annuitants under the various charitable gift annuity agreements are computed at rates varying from 4% to 12% of the contributed amount and total approximately $67,000 annually. In addition, the University is the trustee and remainder beneficiary of several irrevocable charitable remainder trusts, wherein the University invests the assets of the trusts and distributes a specified percentage or amount each year to the donor or other beneficiary. Upon the death of the beneficiary, the assets remaining in the trust transfer to the University. Payments made under these trust agreements total approximately $149,000 annually.

10. LEASE COMMITMENTS:

The University leases its Arcadia, Bakersfield, and Corona, California, campuses and certain equipment under non-cancelable operating lease agreements. The University leases certain equipment under capital leases. Total rent expense was $1,229,520 and $1,036,286 for the years ended June 30, 2012 and 2011, respectively.

Future minimum lease payments under non-cancelable operating leases with initial terms of one year or more are:

Years Ending June 30,	
2013	$ 979,451
2014	847,743
2015	729,957
2016	638,085
2017	640,875
Thereafter	1,026,720
Total minimum lease payments	$ 4,862,831

Included in total minimum lease payments are property use fees of $2,158,695 based on the DRC Partners use agreement for the conference center near the Point Loma campus.

Future minimum rentals to be received under non-cancelable subleases as of June 30, 2012, totaled approximately $6,480.

11. FUNCTIONAL EXPENSE ALLOCATION:

The following is an allocation of expenses by function:

	June 30, 2012	June 30, 2011
Program services	$ 61,793,234	$ 59,180,198
Supporting activities:		
General and administrative	17,340,534	16,459,733
Fundraising	1,094,672	1,183,625
	$ 80,228,440	$ 76,823,556

12. NET ASSETS:

Net assets consist of:

	June 30, 2012	June 30, 2011
Unrestricted:		
Undesignated	$ 15,154,020	$ 16,367,863
Board designated endowment funds	14,137,587	14,494,600
Net investment in land, buildings, and equipment	40,852,527	40,033,112
	$ 70,144,134	$ 70,895,575
Temporarily restricted net assets are available for the following purposes:		
Annuity/life income plans	$ 682,797	$ 760,477
Student aid	5,100,902	5,456,187
Construction	2,265,423	2,263,953
Research grants and other	353,311	44,345
	$ 8,402,433	$ 8,524,962
Permanently restricted net assets are available for the following purposes:		
Endowed scholarship funds	$ 18,483,458	$ 17,339,017
Annuity scholarship funds (upon the death of the annuitants or beneficiaries)	374,781	374,781
	$ 18,858,239	$ 17,713,798
Net assets released from restrictions by purpose are:		
Construction of long-lived assets	$ -	$ 720
Student development	259,060	472,115
Scholarships and grants	414,440	627,978
Payments to annuitants	181,948	217,346
Institutional support	302,797	210,156
Academic support	82,741	22,941
Research	79,053	63,206
Other	7,181	2,913
Instruction	17,918	38,031
	$ 1,345,138	$ 1,655,406

13. AGREEMENT WITH SAN DIEGO FIRST CHURCH OF THE NAZARENE:

The University had an agreement with San Diego First Church of the Nazarene (the Church) to provide approximately one-half of the construction costs for joint ownership of a sanctuary building (the Chapel) on the Point Loma campus. The Chapel was completed at a cost of approximately $5.6 million of which the University's share was $2,676,643. These costs are reported as property, plant, and equipment in the combined statements of financial position. The University paid certain amounts on behalf of the Church and the related note receivable of $107,800 is included in the trust deed notes receivable (see note 4).

The agreement contains certain requirements, including a provision that the land shall be leased to the Church at a nominal amount by the University until such time that a one-half interest in the land is conveyed to the Church by the University. The agreement further requires that the Chapel be under the control of the Church while the University maintains the right to use the facility for appropriate University functions.

14. EMPLOYEE BENEFIT PLANS:

The University maintains a defined contribution pension plan (the Plan) for eligible full-time employees. Participants may contribute up to the maximum limit by federal law. The University contributes a base of 3% with no required contribution by the participant and matches up to 5% of participant contributions. The University's contributions were $2,276,675 and $2,185,579 for the years ended June 30, 2012 and 2011, respectively.

The employees may elect to contribute to a Tax Deferred Annuity (the TDA Plan). The University does not provide for contributions to the TDA Plan.

15. ENDOWMENTS:

The University's endowment consists of approximately 300 individual funds. The endowment includes both donor-restricted endowment funds (the significant majority of which were established to provide scholarships to University students) and funds designated by the board of trustees to function as endowments. As required by accounting principles generally accepted in the United States of America (GAAP), 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 board of trustees of the University has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of 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 expenditure by the organization in a manner consistent with the standard of prudence prescribed by SPMIFA.

15. ENDOWMENTS, continued:

In accordance with SPMIFA, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the University and the specific donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the University
- The investment policies of the University

FUNDS WITH DEFICIENCIES

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or SPMIFA requires the University to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were $2,048,239 and $1,863,825 as of June 30, 2012 and June 30, 2011, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the board.

RETURN OBJECTIVES AND RISK PARAMETERS

The University, through its Foundation, has adopted investment and spending policies for donor-restricted endowment assets that attempt to provide a predictable stream of funding for student scholarships while seeking to maintain the purchasing power of the endowment assets. Under these policies, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of selected benchmarks for each investment asset class while assuming a moderate level of investment risk. The University expects its endowment funds, over time, to provide an average annual rate of return greater than the corresponding benchmark index. Actual returns in any given year may vary from this amount.

STRATEGIES EMPLOYED FOR ACHIEVING OBJECTIVES

To satisfy its long-term rate-of-return objectives, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The University targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints.

15. ENDOWMENTS, continued:

SPENDING POLICY AND HOW THE INVESTMENT OBJECTIVES RELATE TO SPENDING POLICY
During the year ended June 30, 2012, the University appropriated 4.0% of the average fair market value of each fund as of June 30 of the preceding year of expenditures out of its scholarship endowment. In previous years, the University appropriated 3.5% of the average fair market value over the 12 quarters prior to, and including, December 31 of the preceding year for expenditures out of its scholarship endowment.

Spending from these funds is intended to benefit the University in perpetuity; therefore, the spending policy is intended to achieve a balance between the need to preserve the purchasing power of the endowment principal at the time of the donation and the need to maximize current distribution to support the purposes designated by the donors.

Endowment Net Asset Composition by Type of Fund as of June 30, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	$ (2,048,239)	$ 3,108,534	$ 18,483,458	$ 19,543,753
Board designated endowment funds	16,185,826	-	-	16,185,826
	$ 14,137,587	$ 3,108,534	$ 18,483,458	$ 35,729,579

Endowment Net Asset Composition by Type of Fund as of June 30, 2011:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	$ (1,863,825)	$ 3,244,592	$ 17,339,017	$ 18,719,784
Board designated endowment funds	16,358,425	-	-	16,358,425
	$ 14,494,600	$ 3,244,592	$ 17,339,017	$ 35,078,209

The endowment assets are included as components of cash and cash equivalents and investments reported in the accompanying combined financial statements.

15. ENDOWMENTS, continued:

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 14,494,600	$ 3,244,592	$ 17,339,017	$ 35,078,209
Investment return:				
Investment income	83,813	225,491	-	309,304
Net gains (realized and unrealized)	(43,972)	(117,511)	-	(161,483)
Total investment return	39,841	107,980	-	147,821
Contributions	-	20,374	1,144,441	1,164,815
Appropriation of endowment assets for expenditure	-	(264,412)	-	(264,412)
Other changes:				
Board-designated endowment expenditures	(396,854)	-	-	(396,854)
	(396,854)	(244,038)	1,144,441	503,549
Endowment net assets, end of year	$ 14,137,587	$ 3,108,534	$ 18,483,458	$ 35,729,579

15. ENDOWMENTS, continued:

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2011:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 9,196,329	$ 2,217,562	$ 16,707,226	$ 28,121,117
Investment return:				
Investment income	706,185	453,743	-	1,159,928
Net losses (realized and unrealized)	217,205	964,701	-	1,181,906
Total investment return	923,390	1,418,444	-	2,341,834
Contributions	-	9,955	631,791	641,746
Appropriation of endowment assets for expenditure	-	(401,369)	-	(401,369)
Other changes:				
Transfers to create board-designated endowment funds	4,782,138	-	-	4,782,138
Board-designated endowment expenditures	(407,257)	-	-	(407,257)
	4,374,881	(391,414)	631,791	4,615,258
Endowment net assets, end of year	$ 14,494,600	$ 3,244,592	$ 17,339,017	$ 35,078,209

16. FAIR VALUE MEASUREMENTS:

The University uses appropriate valuation techniques to determine fair value based on inputs available. When available, the University measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs are only used when Level 1 or Level 2 inputs were not available.

Fair values of assets measured on a recurring basis at June 30, 2012, are as follows:

		Fair Value Measurements Using:		
	June 30, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Marketable securities:				
Fixed income:				
Government bonds	$ 680,841	$ 680,841	$ -	$ -
Corporate bonds	14,521,682	14,521,682	-	-
Church bonds	95,890	-	-	95,890
Total fixed income	15,298,413	15,202,523	-	95,890
Common stocks:				
Consumer goods	1,499,091	1,499,091	-	-
Energy	453,315	453,315	-	-
Financial	8,513,437	8,513,437	-	-
Healthcare	790,173	790,173	-	-
Industrials	508,219	508,219	-	-
Informational technology	1,419,135	1,419,135	-	-
Materials	432,327	432,327	-	-
Telecommunications	34,456	34,456	-	-
Utilities	225,055	225,055	-	-
Miscellaneous	20,039	20,039	-	-
Precious metals	33,644	33,644	-	-
Total common stocks	13,928,891	13,928,891	-	-
Common Fund:				
Multi-strategy bond fund	601,011	-	601,011	-
Multi-strategy intermediate fund	634,777	-	634,777	-
Multi-strategy equity fund	1,033,398	-	1,033,398	-
	2,269,186	-	2,269,186	-

16. FAIR VALUE MEASUREMENTS, continued:

Fair values of assets measured on a recurring basis at June 30, 2012, are as follows, continued:

		Fair Value Measurements Using:		
	June 30, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Installment note receivable	249,564	-	-	249,564
Mutual funds:				
Small cap	89,067	89,067	-	-
Mid cap	115,040	115,040	-	-
Large cap	339,016	339,016	-	-
Real estate funds	24,255	24,255	-	-
Foreign funds	55,017	55,017	-	-
Miscellaneous	90,706	90,706	-	-
Comingled funds	67,161	67,161	-	-
Total mutual funds	780,262	780,262	-	-
Certificates of deposit	8,143,447	-	8,143,447	-
Money market mutual funds	2,777,752	2,777,752	-	-
Total marketable securities	$ 43,447,515	$ 32,689,428	$ 10,412,633	$ 345,454
Interest rate swap agreement liability	$ 9,499,048	$ -	$ 9,499,048	$ -

16. FAIR VALUE MEASUREMENTS, continued:

Fair values of assets measured on a recurring basis at June 30, 2011, are as follows:

		Fair Value Measurements Using:		
	June 30, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Marketable securities:				
Fixed income:				
Government bonds	$ 2,346,447	$ 2,346,447	$ -	$ -
Corporate bonds	8,995,778	8,995,778	-	-
Church bonds	95,890	-	-	95,890
Total fixed income	11,438,115	11,342,225	-	95,890
Common stocks:				
Consumer goods	1,345,461	1,345,461	-	-
Energy	654,294	654,294	-	-
Financial	7,178,469	7,178,469	-	-
Healthcare	790,538	790,538	-	-
Industrials	497,082	497,082	-	-
Informational technology	1,344,410	1,344,410	-	-
Materials	309,946	309,946	-	-
Telecommunications	52,161	52,161	-	-
Automobiles	4,583	4,583	-	-
Utilities	120,048	120,048	-	-
Miscellaneous	108,998	108,998	-	-
Total common stocks	12,405,990	12,405,990	-	-
Common Fund:				
Multi-strategy bond fund	611,350	-	611,350	-
Multi-strategy intermediate fund	617,657	-	617,657	-
Multi-strategy equity fund	1,057,565	-	1,057,565	-
	2,286,572	-	2,286,572	-

16. FAIR VALUE MEASUREMENTS, continued:

Fair values of assets measured on a recurring basis at June 30, 2011, are as follows, continued:

		Fair Value Measurements Using:		
	June 30, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Commodities	5,482	-	-	5,482
Installment note receivable	252,043	-	-	252,043
Mutual funds:				
Small cap	27,314	27,314	-	-
Mid cap	97,698	97,698	-	-
Large cap	376,555	376,555	-	-
Real estate funds	18,128	18,128	-	-
Growth funds	113,349	113,349	-	-
Foreign funds	131,463	131,463	-	-
Government funds	80,400	80,400	-	-
Miscellaneous	52,124	52,124	-	-
Comingled funds	51,242	51,242	-	-
Total mutual funds	948,273	948,273	-	-
Certificates of deposit	10,309,789	-	10,309,789	-
Money market mutual funds	2,234,905	2,234,905	-	-
Total marketable securities	$ 39,881,169	$ 26,931,393	$ 12,596,361	$ 353,415
Interest rate swap agreement liability	$ 6,177,313	$ -	$ 6,177,313	$ -

16. FAIR VALUE MEASUREMENTS, continued:

Valuation techniques: Fair values for U.S. Government securities, money market funds, corporate bonds and debentures, and common stocks are determined by reference to quoted market prices and other relevant information generated by market transactions. The fair value of mutual funds is based on quoted net asset values of the shares held by the University at year-end. The fair values of Common Fund, managed corporate bond funds, and equity funds, for which quoted market prices are not available are valued based on yields currently available on comparable securities of issuers with similar credit ratings. The fair values of the certificates of deposit are based on observable inputs other than the quoted prices included in Level 1 and thus are based on yields for securities of comparable maturity, quality, and type as obtained from market makers. The fair values of installment notes held as investments for which quoted market prices are not available are valued based on yields currently available on comparable notes of issuers with similar credit ratings. The swap agreement liability is valued at the net present value of future cash flows attributable to the difference between the contractual variable and fixed rates in the agreement.

Changes in valuation techniques: None.

The following is a reconciliation of investments in securities for which significant unobservable inputs (Level 3) were used in determining value:

	June 30,	
	2012	2011
Beginning balance	$ 353,415	$ 254,542
Principal payments received	(7,959)	(2,499)
Contributions	-	95,890
Purchases, sales, issuances, and settlements (net)	-	5,482
Ending balance	$ 345,454	$ 353,415

17. RELATED PARTIES:

The University leases property owned by a denominationally related organization. Lease payments for the years ended June 30, 2012 and 2011, were $330,519 and $414,095, respectively.

A member of the board of trustees is also the president of a financial institution at which the University has approximately $8 million on deposit.

In October 2011, the University entered into an use agreement for a conference center near the University's Point Loma campus. DRC Partners allows the University to use their conference center near the University's Point Loma campus for a fee. The base use fee is $22,500 per month and increases annually. The University uses this space for offices, classes, and special events, which generate additional revenue for the University. Ownership of DRC Partners includes two individuals who are current board members of the University and one individual who is an employee of the University. Lease payments for the years ended June 30, 2012 and 2011, were $317,981 and $0, respectively.

18. SUBSEQUENT EVENTS:

Subsequent events have been evaluated through the report date, which represents the date the combined financial statements were available to be issued. Subsequent events after that date have not been evaluated.

SUPPLEMENTAL INFORMATION

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INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL INFORMATION

Board of Trustees
Point Loma Nazarene University
San Diego, California

We have audited the combined financial statements of Point Loma Nazarene University and Affiliate as of and for the years ended June 30, 2012 and 2011, and have issued our report thereon dated October 16, 2012, which expresses an unqualified opinion on those combined financial statements, appears on page 1. Our audits were conducted for the purpose of forming an opinion on the combined financial statements as a whole. The Supplemental Combining Statements of Financial Position and Supplemental Combining Statements of Activities are presented for purposes of additional analysis and are not a required part of the combined financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the combined financial statements as a whole.

Capin Crouse LLP

San Diego, California
October 16, 2012

POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

Supplemental Combining Statement of Financial Position

June 30, 2012

	PLNU	Foundation	Total
ASSETS:			
Cash and cash equivalents	$ 13,602,918	$ 18,505	$ 13,621,423
Marketable securities	12,787,132	30,660,383	43,447,515
Student receivables, less allowance of $727,762	1,748,323	3,369	1,751,692
Accounts receivable	378,122	93,557	471,679
Notes receivable, less allowance of $59,538	3,854,920	-	3,854,920
Due to / from	5,396,108	(5,396,108)	-
Other assets	1,846,989	109,301	1,956,290
Equity participation notes receivable	-	5,561,543	5,561,543
Bond issuance costs, net of amortization	532,736	-	532,736
Investments in real estate	-	9,556,692	9,556,692
Construction in progress	1,950,851	-	1,950,851
Property, plant, and equipment, net of depreciation	71,010,325	-	71,010,325
Total Assets	$ 113,108,424	$ 40,607,242	$ 153,715,666
LIABILITIES AND NET ASSETS:			
Liabilities:			
Accounts payable	$ 2,136,993	$ -	$ 2,136,993
Construction payable	559,129	-	559,129
Accrued expenses and other liabilities	3,336,408	-	3,336,408
Amounts held for others	1,235,176	-	1,235,176
Deposits and deferred revenue	2,421,473	1,600	2,423,073
Charitable trusts and annuities payable	-	1,609,845	1,609,845
Fair value of swap agreement liability	9,499,048	-	9,499,048
Federal student loan obligations	3,395,039	-	3,395,039
Long-term debt	32,108,649	7,500	32,116,149
	54,691,915	1,618,945	56,310,860
Net assets:			
Unrestricted	53,613,119	16,531,015	70,144,134
Temporarily restricted	4,626,726	3,775,707	8,402,433
Permanently restricted	176,664	18,681,575	18,858,239
	58,416,509	38,988,297	97,404,806
Total Liabilities and Net Assets	$ 113,108,424	$ 40,607,242	$ 153,715,666

POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

Supplemental Combining Statement of Financial Position

June 30, 2011

	PLNU	Foundation	Total
ASSETS:			
Cash and cash equivalents	$ 14,604,989	$ 18,505	$ 14,623,494
Marketable securities	10,508,718	29,372,451	39,881,169
Student receivables, less allowance of $722,246	1,997,056	-	1,997,056
Accounts receivable	638,411	3,294	641,705
Notes receivable, less allowance of $64,231	3,970,502	-	3,970,502
Due to / from	4,726,429	(4,726,429)	-
Other assets	971,772	443,884	1,415,656
Equity participation notes receivable	-	5,866,333	5,866,333
Trust deed note receivable	-	107,800	107,800
Bond issuance costs, net of amortization	344,744	-	344,744
Investments in real estate	-	8,919,659	8,919,659
Construction in progress	1,341,707	-	1,341,707
Property, plant, and equipment, net of depreciation	71,816,194	-	71,816,194
Total Assets	$ 110,920,522	$ 40,005,497	$ 150,926,019
LIABILITIES AND NET ASSETS:			
Liabilities:			
Accounts payable	$ 1,852,119	$ -	$ 1,852,119
Accrued expenses and other liabilities	3,306,249	-	3,306,249
Amounts held for others	1,010,673	-	1,010,673
Deposits and deferred revenue	3,349,096	3,144	3,352,240
Charitable trusts and annuities payable	-	1,624,448	1,624,448
Fair value of swap agreement liability	6,177,313	-	6,177,313
Federal student loan obligations	3,336,353	-	3,336,353
Capital lease obligation	112,200	-	112,200
Long-term debt	33,012,589	7,500	33,020,089
	52,156,592	1,635,092	53,791,684
Net assets:			
Unrestricted	53,994,349	16,901,226	70,895,575
Temporarily restricted	4,592,917	3,932,045	8,524,962
Permanently restricted	176,664	17,537,134	17,713,798
	58,763,930	38,370,405	97,134,335
Total Liabilities and Net Assets	$ 110,920,522	$ 40,005,497	$ 150,926,019

POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

Supplemental Combining Statement of Activities

Year Ended June 30, 2012

	PLNU				Foundation				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
REVENUE, SUPPORT, AND RECLASSIFICATIONS:									
Student tuition and fees	$ 76,059,114	$ -	$ -	$ 76,059,114	$ -	$ -	$ -	$ -	$ 76,059,114
Less student aid	(16,234,601)	-	-	(16,234,601)	(405,807)	-	-	(405,807)	(16,640,408)
	59,824,513	-	-	59,824,513	(405,807)	-	-	(405,807)	59,418,706
Auxiliary services	15,333,682	-	-	15,333,682	-	-	-	-	15,333,682
Private gifts and grants	2,327,396	990,965	-	3,318,361	-	35,743	1,144,441	1,180,184	4,498,545
Income on long-term investments	486,428	(61,672)	-	424,756	(35,199)	367,753	-	332,554	757,310
Other income	3,856,875	-	-	3,856,875	114,413	-	-	114,413	3,971,288
	81,828,894	929,293	-	82,758,187	(326,593)	403,496	1,144,441	1,221,344	83,979,531
Net assets released from restrictions	895,484	(895,484)	-	-	449,654	(449,654)	-	-	-
Total Revenue, Support, and Reclassifications	82,724,378	33,809	-	82,758,187	123,061	(46,158)	1,144,441	1,221,344	83,979,531
OPERATING EXPENSES:									
Instruction	22,291,759	-	-	22,291,759	-	-	-	-	22,291,759
Academic support	10,447,759	-	-	10,447,759	-	-	-	-	10,447,759
Student development	12,533,581	-	-	12,533,581	-	-	-	-	12,533,581
Institutional support	19,010,569	-	-	19,010,569	-	-	-	-	19,010,569
Operation and maintenance of plant	6,837,167	-	-	6,837,167	-	-	-	-	6,837,167
Auxiliary services	7,342,568	-	-	7,342,568	-	-	-	-	7,342,568
Other expenses	1,194,043	-	-	1,194,043	174,352	-	-	174,352	1,368,395
Organized research	396,642	-	-	396,642	-	-	-	-	396,642
Transfers	(312,587)	-	-	(312,587)	312,587	-	-	312,587	-
Total Expenses	79,741,501	-	-	79,741,501	486,939	-	-	486,939	80,228,440
Change in Net Assets from Operations	2,982,877	33,809	-	3,016,686	(363,878)	(46,158)	1,144,441	734,405	3,751,091
Other Changes in Non-Operating Activities:									
Net unrealized loss on investments	(43,294)	-	-	(43,294)	(125,420)	(352,026)	-	(477,446)	(520,740)
Net realized gain on investments	921	-	-	921	48,832	241,846	-	290,678	291,599
Trust and annuity actuarial gain	-	-	-	-	70,255	-	-	70,255	70,255
Adjustment to swap agreement liability	(3,321,734)	-	-	(3,321,734)	-	-	-	-	(3,321,734)
Change in Net Assets	(381,230)	33,809	-	(347,421)	(370,211)	(156,338)	1,144,441	617,892	270,471
Net Assets, Beginning of Year	53,994,349	4,592,917	176,664	58,763,930	16,901,226	3,932,045	17,537,134	38,370,405	97,134,335
Net Assets, End of Year	$ 53,613,119	$ 4,626,726	$ 176,664	$ 58,416,509	$ 16,531,015	$ 3,775,707	$ 18,681,575	$ 38,988,297	$ 97,404,806

POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

Supplemental Combining Statement of Activities

Year Ended June 30, 2011

	PLNU				Foundation				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
REVENUE, SUPPORT, AND RECLASSIFICATIONS:									
Student tuition and fees	$ 74,036,721	$ -	$ -	$ 74,036,721	$ -	$ -	$ -	$ -	$ 74,036,721
Less student aid	(15,548,709)	-	-	(15,548,709)	(408,939)	-	-	(408,939)	(15,957,648)
	58,488,012	-	-	58,488,012	(408,939)	-	-	(408,939)	58,079,073
Auxiliary services	15,175,755	-	-	15,175,755	-	-	-	-	15,175,755
Private gifts and grants	2,093,013	1,286,926	-	3,379,939	8,657	50,234	631,791	690,682	4,070,621
Income on long-term investments	415,047	(3,764)	-	411,283	121,352	316,129	-	437,481	848,764
Other income	3,675,393	43,776	-	3,719,169	99,872	-	-	99,872	3,819,041
	79,847,220	1,326,938	-	81,174,158	(179,058)	366,363	631,791	819,096	81,993,254
Net assets released from restrictions	1,022,010	(1,022,010)	-	-	633,396	(633,396)	-	-	-
Total Revenue, Support, and Reclassifications	80,869,230	304,928	-	81,174,158	454,338	(267,033)	631,791	819,096	81,993,254
OPERATING EXPENSES:									
Instruction	22,233,918	-	-	22,233,918	-	-	-	-	22,233,918
Academic support	9,955,388	-	-	9,955,388	-	-	-	-	9,955,388
Student development	12,036,127	-	-	12,036,127	-	-	-	-	12,036,127
Institutional support	17,866,844	-	-	17,866,844	-	-	-	-	17,866,844
Operation and maintenance of plant	6,382,589	-	-	6,382,589	-	-	-	-	6,382,589
Auxiliary services	7,047,509	-	-	7,047,509	-	-	-	-	7,047,509
Other expenses	956,186	-	-	956,186	127,715	-	-	127,715	1,083,901
Organized research	217,280	-	-	217,280	-	-	-	-	217,280
Transfers	4,532,625	(18,885)	-	4,513,740	(4,532,625)	18,885	-	(4,513,740)	-
Total Expenses	81,228,466	(18,885)	-	81,209,581	(4,404,910)	18,885	-	(4,386,025)	76,823,556
Change in Net Assets from Operations	(359,236)	323,813	-	(35,423)	4,859,248	(285,918)	631,791	5,205,121	5,169,698
Other Changes in Non-Operating Activities:									
Net unrealized gain (loss) on investments	(3,984)	-	-	(3,984)	58,067	724,703		782,770	778,786
Net realized gain on investments	1,048	-	-	1,048	246,639	916,970	-	1,163,609	1,164,657
Trust and annuity actuarial gain	-	-	-	-	278,106	-	-	278,106	278,106
Adjustment to swap agreement liability	1,032,712	-	-	1,032,712	-	-	-	-	1,032,712
Change in Net Assets	670,540	323,813	-	994,353	5,442,060	1,355,755	631,791	7,429,606	8,423,959
Net Assets, Beginning of Year	53,323,809	4,269,104	176,664	57,769,577	11,459,166	2,576,290	16,905,343	30,940,799	88,710,376
Net Assets, End of Year	$ 53,994,349	$ 4,592,917	$ 176,664	$ 58,763,930	$ 16,901,226	$ 3,932,045	$ 17,537,134	$ 38,370,405	$ 97,134,335