



**POINT LOMA**  
NAZARENE UNIVERSITY

COMBINED FINANCIAL STATEMENTS  
With Independent Auditors' Report

June 30, 2011 and 2010

# POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

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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, 2011 and 2010, 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 audit 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 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, 2011 and 2010, and the results of their activities and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 2 to the combined financial statements, Point Loma Nazarene University and Affiliate adopted accounting standards that were effective for the year ended June 30, 2011.



San Diego, California  
October 26, 2011

# POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

## Combined Statements of Financial Position

	June 30,	
	2011	2010
<b>ASSETS:</b>		
Cash and cash equivalents	\$ 14,623,494	\$ 11,681,844
Marketable securities	39,881,169	35,340,054
Student receivables, less allowance of \$727,762 and \$758,133 at June 30, 2011 and 2010, respectively	1,997,056	2,532,370
Accounts receivable	577,474	479,959
Notes receivable, less allowance of \$64,231 and \$61,816 at June 30, 2011 and 2010, respectively	4,034,733	3,993,812
Other assets	1,427,250	1,016,490
Equity participation notes receivable	5,866,333	6,130,567
Trust deed note receivable	107,800	107,800
Bond issuance costs, net of amortization	344,744	360,414
Investments in real estate	8,919,659	7,901,755
Construction in progress	1,341,707	1,082,697
Property, plant, and equipment, net of depreciation	71,816,195	72,791,444
<b>Total Assets</b>	<b>\$ 150,937,614</b>	<b>\$ 143,419,206</b>
<b>LIABILITIES AND NET ASSETS:</b>		
Accounts payable	\$ 2,862,793	\$ 2,560,591
Accrued expenses and other liabilities	2,307,170	2,239,724
Amounts held for others	1,010,673	980,074
Deposits and deferred revenue	3,352,240	2,591,348
Charitable trusts and annuities payable	1,624,448	1,814,510
Fair value of swap agreement liability	6,177,313	7,210,025
Federal student loan obligations	3,336,353	3,245,032
Capital lease obligation	112,200	179,595
Long-term debt	33,020,089	33,887,931
	53,803,279	54,708,830
<b>Net assets:</b>		
Unrestricted	70,895,575	64,782,975
Temporarily restricted	8,524,962	6,845,394
Permanently restricted	17,713,798	17,082,007
	97,134,335	88,710,376
<b>Total Liabilities and Net Assets</b>	<b>\$ 150,937,614</b>	<b>\$ 143,419,206</b>

See notes to combined financial statements

# POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

## Combined Statements of Activities

	Year Ended June 30,							
	2011				2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>REVENUE, SUPPORT, AND RECLASSIFICATIONS:</b>								
Student tuition and fees	\$ 74,036,721	\$ -	\$ -	\$ 74,036,721	\$ 69,075,157	\$ -	\$ -	\$ 69,075,157
Less student aid	<u>(15,968,816)</u>	-	-	<u>(15,968,816)</u>	<u>(14,236,534)</u>	-	-	<u>(14,236,534)</u>
	58,067,905	-	-	58,067,905	54,838,623	-	-	54,838,623
Auxiliary services	15,175,755	-	-	15,175,755	13,907,364	-	-	13,907,364
Private gifts and grants	2,101,670	1,337,160	631,791	4,070,621	2,202,031	1,477,341	1,097,413	4,776,785
Income on long-term investments	536,399	312,365	-	848,764	481,985	587,710	-	1,069,695
Net realized gain (loss) on investments	247,687	916,970	-	1,164,657	(140,064)	(53,520)	-	(193,584)
Other income	4,064,539	43,776	-	4,108,315	4,786,579	322,421	(203)	5,108,797
	<u>80,193,955</u>	<u>2,610,271</u>	<u>631,791</u>	<u>83,436,017</u>	<u>76,076,518</u>	<u>2,333,952</u>	<u>1,097,210</u>	<u>79,507,680</u>
Net assets released from restrictions	<u>1,655,406</u>	<u>(1,655,406)</u>	<u>-</u>	<u>-</u>	<u>2,214,397</u>	<u>(2,214,397)</u>	<u>-</u>	<u>-</u>
Total Revenue, Support, and Reclassifications	<u>81,849,361</u>	<u>954,865</u>	<u>631,791</u>	<u>83,436,017</u>	<u>78,290,915</u>	<u>119,555</u>	<u>1,097,210</u>	<u>79,507,680</u>
 <b>EXPENSES:</b>								
Instruction	22,233,918	-	-	22,233,918	22,057,702	-	-	22,057,702
Academic support	9,955,388	-	-	9,955,388	9,957,464	-	-	9,957,464
Student development	12,036,127	-	-	12,036,127	11,646,847	-	-	11,646,847
Institutional support	17,866,844	-	-	17,866,844	16,648,057	-	-	16,648,057
Operation and maintenance of plant	6,382,589	-	-	6,382,589	5,920,114	-	-	5,920,114
Auxiliary services	7,047,509	-	-	7,047,509	7,100,629	-	-	7,100,629
Other expenses	1,083,901	-	-	1,083,901	1,037,188	-	-	1,037,188
Organized research	217,280	-	-	217,280	272,140	-	-	272,140
Total Expenses	<u>76,823,556</u>	<u>-</u>	<u>-</u>	<u>76,823,556</u>	<u>74,640,141</u>	<u>-</u>	<u>-</u>	<u>74,640,141</u>
Excess of revenues over expenses	5,025,805	954,865	631,791	6,612,461	3,650,774	119,555	1,097,210	4,867,539
Net unrealized gain on investments	54,083	724,703	-	778,786	742,028	860,959	-	1,602,987
Adjustment to swap agreement liability	<u>1,032,712</u>	<u>-</u>	<u>-</u>	<u>1,032,712</u>	<u>(1,583,724)</u>	<u>-</u>	<u>-</u>	<u>(1,583,724)</u>
Change in Net Assets	6,112,600	1,679,568	631,791	8,423,959	2,809,078	980,514	1,097,210	4,886,802
Net Assets, Beginning of Year	<u>64,782,975</u>	<u>6,845,394</u>	<u>17,082,007</u>	<u>88,710,376</u>	<u>61,973,897</u>	<u>5,864,880</u>	<u>15,984,797</u>	<u>83,823,574</u>
Net Assets, End of Year	<u>\$ 70,895,575</u>	<u>\$ 8,524,962</u>	<u>\$ 17,713,798</u>	<u>\$ 97,134,335</u>	<u>\$ 64,782,975</u>	<u>\$ 6,845,394</u>	<u>\$ 17,082,007</u>	<u>\$ 88,710,376</u>

See notes to combined financial statements

# POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

## Combined Statements of Cash Flows

	Year Ended June 30,	
	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 8,423,959	\$ 4,886,802
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	3,906,695	3,841,952
Net realized and unrealized gain on investments	(1,943,443)	(1,508,740)
Loss on sale of investment in real estate	-	99,337
Gift in kind contributions	(95,890)	-
Increase in provision for doubtful accounts	19,439	232,902
Loss on equity participation notes receivable	45,176	-
Forgiveness of equity participation notes receivable	87,500	-
Adjustment to actuarial liability for annuities	(190,062)	(371,598)
Restricted contributions	(171,338)	(373,382)
Adjustment to swap agreement liability	(1,032,712)	1,583,724
Net change in:		
Student and accounts receivable	437,799	(1,101,385)
Notes receivable	(60,360)	459,468
Other assets	(410,760)	623,687
Accounts payable	302,202	185,439
Accrued expenses and other liabilities	67,446	229,044
Amounts held for others	30,599	(40,104)
Deposits and deferred revenue	760,892	48,599
Federal student loan obligations	91,321	40,197
Net Cash Provided by Operating Activities	10,268,463	8,835,942
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property, plant, and equipment	(3,174,786)	(2,592,144)
Purchases of marketable securities	(2,501,782)	(4,822,162)
Net proceeds from sale of real estate	220,496	621,611
Purchase of real estate	(938,400)	(670,456)
Issuance of equity participation notes receivable	(576,500)	-
Collections on equity participation notes receivable	408,058	149,000
Net Cash Used in Investing Activities	(6,562,914)	(7,314,151)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Payments on long-term debt	(867,842)	(822,158)
Payments on capital lease obligation	(67,395)	(40,483)
Restricted contributions	171,338	373,382
Net Cash Used in Financing Activities	(763,899)	(489,259)
Change in Cash and Cash Equivalents	2,941,650	1,032,532
Cash and Cash Equivalents, Beginning of Year	11,681,844	10,649,312
Cash and Cash Equivalents, End of Year	\$ 14,623,494	\$ 11,681,844

See notes to combined financial statements

# POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

## Notes to Combined Financial Statements

June 30, 2011 and 2010

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 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.

# POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

## Notes to Combined Financial Statements

June 30, 2011 and 2010

### 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 student's 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 – 7 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 \$15,670 and \$15,640 for each of the years ended June 30, 2011 and 2010, respectively.



# POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

## Notes to Combined Financial Statements

June 30, 2011 and 2010

### 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, other income in the appropriate net asset classification on the combined statements of activities. For the years ended June 30, 2011 and 2010, there was \$180,421 and \$229,462, 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 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.

# POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

## Notes to Combined Financial Statements

June 30, 2011 and 2010

### 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. Tuition received for school terms in session during the years ended June 30, 2011 and 2010, were recognized on a prorated basis.

#### 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, 2011 and 2010, advertising costs were \$666,971 and \$665,929, respectively.

#### RECLASSIFICATION

Certain amounts in the 2010 combined statement of activities have been reclassified to conform with the 2011 presentation.

# POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

## Notes to Combined Financial Statements

June 30, 2011 and 2010

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

#### RECENTLY ISSUED ACCOUNTING STANDARDS

In January 2010, The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2010-06, Improving Disclosures about Fair Value Measurements. This amends the Fair Value Measurement and Disclosures topic of the Accounting Standard Codification (ASC) to require additional disclosures. Effective for years beginning after December 15, 2009, the guidance requires entities to disclose transfers of assets in and out of Levels 1 and 2 of the fair value hierarchy, the reasons for those transfers, and to report fair values based on class rather than category. Effective for years beginning after December 15, 2010, the guidance requires separate presentation of purchases and sales in the Level 3 asset reconciliation. The University adopted ASU 2010-06 effective June 30, 2011. The only impact was inclusion of additional disclosures in note 16.

The FASB recently issued an accounting standards update to the Receivables Topic of the ASC. The new standard requires additional disclosures related to the credit quality of financing receivables and the allowance for credit losses. For public entities, end of period disclosure requirements are effective for years ending on or after December 15, 2010, and period activity disclosures are effective for years ending on or after December 15, 2011. The only impact was the expansion of significant accounting policy disclosures and inclusion of additional disclosures in note 4.

### 3. MARKETABLE SECURITIES:

Marketable securities consist of:

	June 30,	
	2011	2010
Fixed income	\$ 11,438,115	\$ 11,291,792
Common stocks	12,405,990	5,924,545
Common fund	2,286,572	2,001,760
Commodities	5,482	-
Installment note receivable	252,043	254,542
Mutual funds	948,273	4,530,699
Certificates of deposit	10,309,789	10,070,866
Money market funds	2,234,905	1,199,335
Precious metals	-	66,515
	<u>\$ 39,881,169</u>	<u>\$ 35,340,054</u>

Investment income as reported in the combined statements of activities is net of management fees and loan cancellation costs. Investment fees amounted to approximately \$150,000 and \$139,000 during the years ended June 30, 2011 and 2010, respectively.

# POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

## Notes to Combined Financial Statements

June 30, 2011 and 2010

### 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, 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	579,830	-	-	-	579,830
	<u>\$ 3,584,991</u>	<u>\$ 94,395</u>	<u>\$ 59,450</u>	<u>\$ 295,897</u>	<u>\$ 4,034,733</u>

As a percentage  
of total loan  
portfolio

36%	1%	1%	3%	40%
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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	9,762	19,439
Ending balance	<u>\$ 6,248</u>	<u>\$ 57,983</u>	<u>\$ 64,231</u>

# POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

## Notes to Combined Financial Statements

June 30, 2011 and 2010

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 59% and 60% of the total loan portfolio at June 30, 2011 and 2010, respectively. There were no amounts past due at June 30, 2011 and 2010.

### 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 amounts represent 1% of the total loan portfolio at June 30, 2011 and 2010.

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,	
	2011	2010
Faculty housing	\$ 8,169,354	\$ 7,151,450
Other properties	750,305	750,305
	<u>\$ 8,919,659</u>	<u>\$ 7,901,755</u>

# POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

## Notes to Combined Financial Statements

June 30, 2011 and 2010

6. PROPERTY, PLANT, AND EQUIPMENT:

Property, plant, and equipment consists of:

	June 30,	
	2011	2010
Land and improvements	\$ 6,796,960	\$ 6,666,561
Buildings and improvements	105,921,254	104,977,391
Equipment	20,920,732	19,143,937
Library books	5,680,071	5,615,352
	139,319,017	136,403,241
Less accumulated depreciation	(67,502,822)	(63,611,797)
	71,816,195	72,791,444
Construction in progress	1,341,707	1,082,697
Less debt and capital lease obligation secured by property, plant, and equipment	(33,124,789)	(34,055,026)
	\$ 40,033,113	\$ 39,819,115

Depreciation expense totaled \$3,891,025 and \$3,826,282 for the years ended June 30, 2011 and 2010, respectively.

The total amount of assets recorded under capital lease totaled \$545,914 for each of the years ended June 30, 2011 and 2010. Accumulated depreciation of such assets amounted to \$454,812 and \$420,053 at June 30, 2011 and 2010, respectively.

7. LONG-TERM DEBT:

Long-term debt consists of:

	June 30,	
	2011	2010
Suntrust Leasing Corporation, original amount \$1,022,718 secured by equipment. Monthly principal and interest payments of \$11,211 (5.72%), due April 2015.	\$ 497,589	\$ 600,431
ABAG Finance Authority for Nonprofit Corporations (ABAG) Bonds, Series 2008, original amount of \$34,000,000. Principal payments are due annually. Interest is set weekly and is payable monthly. The average interest rate for June 2011 was .0713%.	32,515,000	33,275,000
Other unsecured loans	7,500	12,500
	\$ 33,020,089	\$ 33,887,931

# POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

## Notes to Combined Financial Statements

June 30, 2011 and 2010

7. LONG-TERM DEBT, continued:

The ABAG Bonds are variable rate demand bonds backed by a bank letter of credit. The loan is secured by a first deed of trust on the real property. The University has entered into a derivative interest rate swap agreement to manage exposure to changes in interest rates as described in note 8.

Interest expense totaled \$1,726,881 and \$1,861,562 for the years ended June 30, 2011 and 2010, respectively. Included in interest expense are bank fees associated with the letter of credit totaling approximately \$335,000 and \$343,000 for the years ended June 30, 2011 and 2010, respectively.

### LETTER OF CREDIT

The letter of credit is provided by a bank, has an original maximum amount of \$34,525,370, and is unconditional and irrevocable. The letter of credit is established in favor of U.S. Bank National Association as trustee for the benefit of the holders of the Series 2008 bonds and is subject to a yearly fee of 1.00% of the outstanding amount. This expense is included in the accompanying combined statements of activities. The letter of credit expires in November 2011. The University is in the process of finalizing a direct purchase of its bonds by a bank for a term of five years, which will eliminate the need for a letter of credit during the period the bank owns the bonds.

### LOAN COVENANT

The bonds and the letter of credit have covenants relating to, among other things, the maintenance of insurance, the maintenance of certain financial ratios, and financial reporting deadlines. As of June 30, 2011, the University was in compliance with all loan covenants.

Annual maturities are:

<u>Year Ending June 30,</u>	
2012	\$ 903,901
2013	950,291
2014	997,061
2015	1,049,229
2016	982,107
Thereafter	<u>28,137,500</u>
	<u>\$ 33,020,089</u>

# POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

## Notes to Combined Financial Statements

June 30, 2011 and 2010

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, 2011, this agreement had a fair value of (\$6,177,313). During June 2011, the variable interest rate received by the University was .3998%, while the average rate paid to bondholders was .0713%. The notional amount of the swap agreement was \$32,515,000 and \$33,275,000 on June 30, 2011 and 2010 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, 2011 and 2010, and for the years then ended:

**FAIR VALUE OF DERIVATIVE INSTRUMENTS IN COMBINED STATEMENTS OF FINANCIAL POSITION**

	Statement Location	Fair Value at June 30,	
		2011	2010
Fair value hedge:			
Interest rate cap agreement	Fair value of swap agreement	\$ 6,177,313	\$ 7,210,025

**EFFECTS OF DERIVATIVE INSTRUMENTS ON COMBINED STATEMENTS OF ACTIVITIES**

	Statement Location	Gain (loss) for year ending June 30,	
		2011	2010
Fair value hedge:			
Interest rate cap agreement	Adjustment to swap agreement	\$ 1,032,712	\$ (1,583,724)



# POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

## Notes to Combined Financial Statements

June 30, 2011 and 2010

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 \$63,000 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 \$180,000 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 \$1,036,286 and \$1,105,934 for the years ended June 30, 2011 and 2010, respectively.

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

<u>Years Ending June 30,</u>	<u>Capital Leases</u>	<u>Operating Leases</u>
2012	\$ 146,229	\$ 925,157
2013	-	353,838
2014	-	328,525
2015	-	332,812
2016	-	7,735
Total minimum lease payments	146,229	<u>\$ 1,948,067</u>
Less amount representing interest	<u>(34,029)</u>	
Present value of net minimum lease payments	<u>\$ 112,200</u>	

Future minimum rentals to be received under non-cancelable subleases as of June 30, 2011, totaled approximately \$20,460.

11. FUNCTIONAL EXPENSE ALLOCATION:

The following is an allocation of expenses by function:

	<u>June 30,</u>	
	<u>2011</u>	<u>2010</u>
Program services	\$ 59,180,198	\$ 58,108,996
Supporting activities:		
General and administrative	16,459,733	15,241,518
Fundraising	1,183,625	1,289,627
	<u>\$ 76,823,556</u>	<u>\$ 74,640,141</u>

# POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

## Notes to Combined Financial Statements

June 30, 2011 and 2010

12. NET ASSETS:

Net assets consist of:

	June 30,	
	2011	2010
Unrestricted:		
Undesignated	\$ 16,367,862	\$ 15,767,531
Board designated endowment funds	14,494,600	9,196,329
Net investment in land, buildings, and equipment	40,033,113	39,819,115
	\$ 70,895,575	\$ 64,782,975
Temporarily restricted net assets are available for the following purposes:		
Annuity/life income plans	\$ 760,477	\$ 400,252
Student aid	5,456,187	4,133,045
Construction	2,263,953	2,263,953
Research grants and other	44,345	48,144
	\$ 8,524,962	\$ 6,845,394
Permanently restricted net assets are available for the following purposes:		
Endowed scholarship funds	\$ 17,339,017	\$ 16,707,226
Annuity scholarship funds (upon the death of the annuitants or beneficiaries)	374,781	374,781
	\$ 17,713,798	\$ 17,082,007
Net assets released from restrictions by purpose are:		
Construction of long-lived assets	\$ 720	\$ 576,004
Student development	472,115	454,535
Scholarships and grants	627,978	624,086
Payments to annuitants	217,346	237,878
Institutional support	210,156	201,096
Academic support	22,941	65,554
Research	63,206	38,647
Other	2,913	1,745
Instruction	38,031	14,852
	\$ 1,655,406	\$ 2,214,397

# POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

## Notes to Combined Financial Statements

June 30, 2011 and 2010

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 \$2,185,579 and \$2,092,641 for the years ended June 30, 2011 and 2010, 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, 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.

# POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

## Notes to Combined Financial Statements

June 30, 2011 and 2010

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 Generally Accepted Accounting Principles (GAAP), deficiencies of this nature that are reported in unrestricted net assets were \$1,863,825 and \$3,437,977 as of June 30, 2011 and June 30, 2010, 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 that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

# POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

## Notes to Combined Financial Statements

June 30, 2011 and 2010

15. ENDOWMENTS, continued:

**SPENDING POLICY AND HOW THE INVESTMENT OBJECTIVES RELATE TO SPENDING POLICY**

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, 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
	<u>\$ 14,494,600</u>	<u>\$ 3,244,592</u>	<u>\$ 17,339,017</u>	<u>\$ 35,078,209</u>

Endowment Net Asset Composition by Type of Fund as of June 30, 2010:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	\$ (3,437,977)	\$ 2,217,562	\$ 16,707,226	\$ 15,486,811
Board designated endowment funds	12,634,306	-	-	12,634,306
	<u>\$ 9,196,329</u>	<u>\$ 2,217,562</u>	<u>\$ 16,707,226</u>	<u>\$ 28,121,117</u>

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

# POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

## Notes to Combined Financial Statements

June 30, 2011 and 2010

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 gains (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

# POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

## Notes to Combined Financial Statements

June 30, 2011 and 2010

15. ENDOWMENTS, continued:

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2010:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 4,637,455	\$ 1,728,817	\$ 15,609,813	\$ 21,976,085
Investment return:				
Investment income	205,333	497,551	-	702,884
Net losses (realized and unrealized)	575,341	488,407	-	1,063,748
Total investment return	780,674	985,958	-	1,766,632
Contributions	-	-	1,097,413	1,097,413
Appropriation of endowment assets for expenditure	-	(497,213)	-	(497,213)
Other changes:				
Transfers to create board-designated endowment funds	3,778,200	-	-	3,778,200
Endowment net assets, end of year	\$ 9,196,329	\$ 2,217,562	\$ 16,707,226	\$ 28,121,117

# POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

## Notes to Combined Financial Statements

June 30, 2011 and 2010

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, 2011, are as follows:

	June 30, 2011	Fair Value Measurements Using:		
		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	-



# POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

## Notes to Combined Financial Statements

June 30, 2011 and 2010

16. FAIR VALUE MEASUREMENTS, continued:

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

	<u>June 30, 2011</u>	Fair Value Measurements Using:		
		<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
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	-	-
Commingled funds	51,242	51,242	-	-
Total mutual funds	<u>948,273</u>	<u>948,273</u>	-	-
Certificates of deposit	10,309,789	-	10,309,789	-
Money market mutual funds	2,234,905	2,234,905	-	-
Total marketable securities	<u>\$ 39,881,169</u>	<u>\$ 26,931,393</u>	<u>\$ 12,596,361</u>	<u>\$ 353,415</u>
Interest rate swap agreement liability	<u>\$ 6,177,313</u>	<u>\$ -</u>	<u>\$ 6,177,313</u>	<u>\$ -</u>

# POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

## Notes to Combined Financial Statements

June 30, 2011 and 2010

16. FAIR VALUE MEASUREMENTS, continued:

Fair values of assets measured on a recurring basis at June 30, 2010, are as follows:

	June 30, 2010	Fair Value Measurements Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Marketable securities:				
Mutual funds:				
Equity funds	\$ 833,491	\$ 833,491	\$ -	\$ -
Bond funds	570,331	570,331	-	-
Other	5,128,637	3,126,877	2,001,760	-
Common stocks	5,924,545	5,091,054	833,491	-
Corporate bonds and debentures	1,549,725	931,346	618,379	-
U.S. Government securities	9,742,067	9,738,917	3,150	-
Installment note receivable	254,542	-	-	254,542
Precious metals	66,515	66,515	-	-
Certificates of deposit	10,070,866	-	10,070,866	-
Money market funds	1,199,335	1,199,335	-	-
<b>Total marketable securities</b>	<b>\$ 35,340,054</b>	<b>\$ 21,557,866</b>	<b>\$ 13,527,646</b>	<b>\$ 254,542</b>
 Interest rate swap agreement liability	 \$ 7,210,025	 \$ -	 \$ 7,210,025	 \$ -

*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.

# POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

## Notes to Combined Financial Statements

June 30, 2011 and 2010

16. FAIR VALUE MEASUREMENTS, continued:

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,	
	2011	2010
Beginning balance	\$ 254,542	\$ 256,916
Principal payments received	(2,499)	(2,374)
Contributions	95,890	-
Purchases, sales, issuances, and settlements (net)	5,482	-
Ending balance	<u>\$ 353,415</u>	<u>\$ 254,542</u>

17. RELATED PARTIES:

The University leases property owned by a denominationally related organization. Lease payments for the years ended June 30, 2011 and 2010, were \$414,095 and \$412,874, respectively.

A member of the board of trustees is also the president of a financial institution at which the University has approximately \$10 million on deposit.

18. SUBSEQUENT EVENTS:

On September 29, 2011, the University signed a use agreement with DRC Partners giving the University use of a 33,000 square foot conference center near its Point Loma campus for a period of seven years. The base use fee is \$22,500 per month and increases annually. The University plans to use this space for offices, classes, and special events, and is expected to 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.

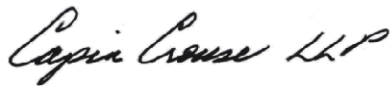
Subsequent events have been evaluated through the report date, which represents the date the combined financial statements were available to be issued. Subsequent events after that date have not been evaluated.

## **SUPPLEMENTAL INFORMATION**

## **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, 2011 and 2010, and have issued our report thereon dated October 26, 2011, which contained an unqualified opinion on those financial statements. Our audits were performed for the purpose of forming an opinion on the combined financial statements as a whole. The combining statements of financial position and the combining statements of activities are presented for the 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.



San Diego, California  
October 26, 2011

# POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

## Supplemental Combining Statement of Financial Position

June 30, 2011

	PLNU	Foundation	Total
<b>ASSETS:</b>			
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 \$727,762	1,997,056	-	1,997,056
Accounts receivable	574,180	3,294	577,474
Notes receivable, less allowance of \$64,231	4,034,733	-	4,034,733
Due to / from the Foundation	8,741,274	(8,741,274)	-
Other assets	983,366	443,884	1,427,250
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	71,816,195	-	71,816,195
<b>Total Assets</b>	<b>\$ 114,946,962</b>	<b>\$ 35,990,652</b>	<b>\$ 150,937,614</b>
<b>LIABILITIES AND NET ASSETS:</b>			
Accounts payable	\$ 2,862,793	\$ -	\$ 2,862,793
Accrued expenses and other liabilities	2,307,170	-	2,307,170
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
	52,168,187	1,635,092	53,803,279
<b>Net assets:</b>			
Unrestricted	58,241,339	12,654,236	70,895,575
Temporarily restricted	4,360,772	4,164,190	8,524,962
Permanently restricted	176,664	17,537,134	17,713,798
	62,778,775	34,355,560	97,134,335
<b>Total Liabilities and Net Assets</b>	<b>\$ 114,946,962</b>	<b>\$ 35,990,652</b>	<b>\$ 150,937,614</b>

# POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

## Supplemental Combining Statement of Financial Position

June 30, 2010

	PLNU	Foundation	Total
<b>ASSETS:</b>			
Cash and cash equivalents	\$ 10,481,427	\$ 1,200,417	\$ 11,681,844
Marketable securities	11,353,157	23,986,897	35,340,054
Student receivables, less allowance of \$758,133	2,532,370	-	2,532,370
Accounts receivable	476,637	3,322	479,959
Notes receivable, less allowance of \$61,816	3,993,812	-	3,993,812
Due to / from the Foundation	6,923,677	(6,923,677)	-
Other assets	654,162	362,328	1,016,490
Equity participation notes receivable	-	6,130,567	6,130,567
Trust deed note receivable	-	107,800	107,800
Bond issuance costs, net of amortization	360,414	-	360,414
Investments in real estate	-	7,901,755	7,901,755
Construction in progress	1,082,697	-	1,082,697
Property, plant, and equipment, net of depreciation	72,791,444	-	72,791,444
<b>Total Assets</b>	<b>\$ 110,649,797</b>	<b>\$ 32,769,409</b>	<b>\$ 143,419,206</b>
<b>LIABILITIES AND NET ASSETS:</b>			
Accounts payable	\$ 2,560,591	\$ -	\$ 2,560,591
Accrued expenses and other liabilities	2,239,724	-	2,239,724
Amounts held for others	980,074	-	980,074
Deposits and deferred revenue	2,589,748	1,600	2,591,348
Charitable trusts and annuities payable	-	1,814,510	1,814,510
Fair value of swap agreement liability	7,210,025	-	7,210,025
Federal student loan obligations	3,245,032	-	3,245,032
Capital lease obligation	179,595	-	179,595
Long-term debt	33,875,431	12,500	33,887,931
	52,880,220	1,828,610	54,708,830
<b>Net assets:</b>			
Unrestricted	53,323,809	11,459,166	64,782,975
Temporarily restricted	4,269,104	2,576,290	6,845,394
Permanently restricted	176,664	16,905,343	17,082,007
	57,769,577	30,940,799	88,710,376
<b>Total Liabilities and Net Assets</b>	<b>\$ 110,649,797</b>	<b>\$ 32,769,409</b>	<b>\$ 143,419,206</b>

**POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE**

**Supplemental Combining Statement of Activities**

Year Ended June 30, 2011

	PLNU				Foundation				Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
<b>REVENUE, SUPPORT, AND RECLASSIFICATIONS:</b>									
Student tuition and fees	\$ 74,036,721	\$ -	\$ -	\$ 74,036,721	\$ -	\$ -	\$ -	\$ -	\$ 74,036,721
Less student aid	(15,559,877)	-	-	(15,559,877)	(408,939)	-	-	(408,939)	(15,968,816)
	<u>58,476,844</u>	<u>-</u>	<u>-</u>	<u>58,476,844</u>	<u>(408,939)</u>	<u>-</u>	<u>-</u>	<u>(408,939)</u>	<u>58,067,905</u>
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	567,551	(217,204)	-	350,347	(31,152)	529,569	-	498,417	848,764
Net realized gain (loss) on investments	(86,452)	180	-	(86,272)	334,139	916,790	-	1,250,929	1,164,657
Other income	3,686,561	43,776	-	3,730,337	377,978	-	-	377,978	4,108,315
	<u>79,913,272</u>	<u>1,113,678</u>	<u>-</u>	<u>81,026,950</u>	<u>280,683</u>	<u>1,496,593</u>	<u>631,791</u>	<u>2,409,067</u>	<u>83,436,017</u>
Net assets released from restrictions	1,022,010	(1,022,010)	-	-	633,396	(633,396)	-	-	-
Total Revenue, Support, and Reclassifications	<u>80,935,282</u>	<u>91,668</u>	<u>-</u>	<u>81,026,950</u>	<u>914,079</u>	<u>863,197</u>	<u>631,791</u>	<u>2,409,067</u>	<u>83,436,017</u>
<b>EXPENSES:</b>									
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	350,639	-	-	350,639	(350,639)	-	-	(350,639)	-
Total Expenses	<u>77,046,480</u>	<u>-</u>	<u>-</u>	<u>77,046,480</u>	<u>(222,924)</u>	<u>-</u>	<u>-</u>	<u>(222,924)</u>	<u>76,823,556</u>
Excess of revenues over expenses	3,888,802	91,668	-	3,980,470	1,137,003	863,197	631,791	2,631,991	6,612,461
Net unrealized gain (loss) on investments	(3,984)	-	-	(3,984)	58,067	724,703	-	782,770	778,786
Adjustment to swap agreement liability	1,032,712	-	-	1,032,712	-	-	-	-	1,032,712
Change in Net Assets	4,917,530	91,668	-	5,009,198	1,195,070	1,587,900	631,791	3,414,761	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	<u>\$ 58,241,339</u>	<u>\$ 4,360,772</u>	<u>\$ 176,664</u>	<u>\$ 62,778,775</u>	<u>\$ 12,654,236</u>	<u>\$ 4,164,190</u>	<u>\$ 17,537,134</u>	<u>\$ 34,355,560</u>	<u>\$ 97,134,335</u>



**POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE**

**Supplemental Combining Statement of Activities**

Year Ended June 30, 2010

	PLNU				Foundation				Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
<b>REVENUE, SUPPORT, AND RECLASSIFICATIONS:</b>									
Student tuition and fees	\$ 69,075,157	\$ -	\$ -	\$ 69,075,157	\$ -	\$ -	\$ -	\$ -	\$ 69,075,157
Less student aid	(13,751,779)	-	-	(13,751,779)	(484,755)	-	-	(484,755)	(14,236,534)
	<u>55,323,378</u>	<u>-</u>	<u>-</u>	<u>55,323,378</u>	<u>(484,755)</u>	<u>-</u>	<u>-</u>	<u>(484,755)</u>	<u>54,838,623</u>
Auxiliary services	13,907,364	-	-	13,907,364	-	-	-	-	13,907,364
Private gifts and grants	2,202,031	1,468,251	-	3,670,282	-	9,090	1,097,413	1,106,503	4,776,785
Income on long-term investments	488,565	-	-	488,565	(6,580)	587,710	-	581,130	1,069,695
Net realized gain (loss) on investments	4,245	-	-	4,245	(144,309)	(53,520)	-	(197,829)	(193,584)
Other income	4,305,103	350,000	-	4,655,103	481,476	(27,579)	(203)	453,694	5,108,797
	<u>76,230,686</u>	<u>1,818,251</u>	<u>-</u>	<u>78,048,937</u>	<u>(154,168)</u>	<u>515,701</u>	<u>1,097,210</u>	<u>1,458,743</u>	<u>79,507,680</u>
Net assets released from restrictions	1,476,510	(1,476,510)	-	-	737,887	(737,887)	-	-	-
<b>Total Revenue, Support, and Reclassifications</b>	<u>77,707,196</u>	<u>341,741</u>	<u>-</u>	<u>78,048,937</u>	<u>583,719</u>	<u>(222,186)</u>	<u>1,097,210</u>	<u>1,458,743</u>	<u>79,507,680</u>
<b>EXPENSES:</b>									
Instruction	22,057,702	-	-	22,057,702	-	-	-	-	22,057,702
Academic support	9,957,464	-	-	9,957,464	-	-	-	-	9,957,464
Student development	11,634,516	-	-	11,634,516	12,331	-	-	12,331	11,646,847
Institutional support	16,648,057	-	-	16,648,057	-	-	-	-	16,648,057
Operation and maintenance of plant	5,919,814	-	-	5,919,814	300	-	-	300	5,920,114
Auxiliary services	7,100,629	-	-	7,100,629	-	-	-	-	7,100,629
Other expenses	1,037,188	-	-	1,037,188	-	-	-	-	1,037,188
Organized research	140,534	-	-	140,534	131,606	-	-	131,606	272,140
Transfers	3,798,900	-	-	3,798,900	(3,798,900)	-	-	(3,798,900)	-
<b>Total Expenses</b>	<u>78,294,804</u>	<u>-</u>	<u>-</u>	<u>78,294,804</u>	<u>(3,654,663)</u>	<u>-</u>	<u>-</u>	<u>(3,654,663)</u>	<u>74,640,141</u>
Excess of revenues over expenses	(587,608)	341,741	-	(245,867)	4,238,382	(222,186)	1,097,210	5,113,406	4,867,539
Net unrealized gain on investments	(100,411)	-	-	(100,411)	842,439	860,959	-	1,703,398	1,602,987
Adjustment to swap agreement liability	(1,583,724)	-	-	(1,583,724)	-	-	-	-	(1,583,724)
Change in Net Assets	(2,271,743)	341,741	-	(1,930,002)	5,080,821	638,773	1,097,210	6,816,804	4,886,802
Net Assets, Beginning of Year	55,595,552	3,927,363	176,664	59,699,579	6,378,345	1,937,517	15,808,133	24,123,995	83,823,574
Net Assets, End of Year	<u>\$ 53,323,809</u>	<u>\$ 4,269,104</u>	<u>\$ 176,664</u>	<u>\$ 57,769,577</u>	<u>\$ 11,459,166</u>	<u>\$ 2,576,290</u>	<u>\$ 16,905,343</u>	<u>\$ 30,940,799</u>	<u>\$ 88,710,376</u>