



POINT LOMA
NAZARENE UNIVERSITY

**POINT LOMA NAZARENE
UNIVERSITY AND
AFFILIATE**

Combined Financial Statements
With Independent Auditors' Report

June 30, 2015 and 2014

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

Report on the Financial Statements

We have audited the accompanying combined financial statements of Point Loma Nazarene University and Affiliate (the University), which comprise the combined statements of financial position as of June 30, 2015 and 2014, and the related combined statements of activities and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the University's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

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, 2015 and 2014, and the changes in their net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Capin Crouse LLP

San Diego, California
October 23, 2015

POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

Combined Statements of Financial Position

	June 30,	
	2015	2014
ASSETS:		
Cash and cash equivalents	\$ 25,208,425	\$ 26,318,765
Marketable securities	19,058,262	17,561,901
Student receivables, net	2,616,683	2,327,030
Accounts receivable	457,041	1,181,186
Notes receivable, net	7,150,321	3,701,253
Other assets	1,310,053	1,731,450
Equity participation notes receivable	5,928,873	5,411,386
Debt issuance costs, net of amortization	392,133	413,918
Investments in real estate	9,655,082	9,419,215
Endowment investments	34,587,370	34,450,837
Construction in progress	27,167,619	4,908,444
Property, plant, and equipment, net of depreciation	68,844,934	69,943,622
Total Assets	\$ 202,376,796	\$ 177,369,007
LIABILITIES AND NET ASSETS:		
Liabilities:		
Accounts payable	\$ 1,912,606	\$ 2,565,309
Construction payable	7,185,977	733,097
Accrued expenses and other liabilities	4,142,132	3,567,618
Amounts held for others	1,482,567	2,698,012
Deposits and deferred revenue	2,767,325	2,031,974
Charitable trusts and annuities payable	1,673,616	1,731,097
Fair value of swap agreement liability	6,744,949	6,741,894
Federal student loan obligations	3,519,403	3,387,895
Long-term debt	40,551,138	31,600,367
	69,979,713	55,057,263
Net assets:		
Unrestricted	100,492,579	88,220,699
Temporarily restricted	9,812,276	12,987,825
Permanently restricted	22,092,228	21,103,220
	132,397,083	122,311,744
Total Liabilities and Net Assets	\$ 202,376,796	\$ 177,369,007

See notes to combined financial statements

POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

Combined Statements of Activities

	Year Ended June 30,							
	2015				2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE, SUPPORT, AND RECLASSIFICATIONS:								
Student tuition and fees	\$ 86,750,165	\$ -	\$ -	\$ 86,750,165	\$ 83,128,560	\$ -	\$ -	\$ 83,128,560
Less student aid	<u>(20,363,810)</u>	-	-	<u>(20,363,810)</u>	<u>(19,550,632)</u>	-	-	<u>(19,550,632)</u>
	66,386,355	-	-	66,386,355	63,577,928	-	-	63,577,928
Auxiliary services	18,035,494	2,854	-	18,038,348	18,174,053	-	-	18,174,053
Private gifts and grants	2,574,396	3,709,871	711,428	6,995,695	1,924,580	3,974,167	880,834	6,779,581
Income on long-term investments	234,317	368,681	277,580	880,578	998,581	(217,731)	-	780,850
Other income	<u>3,819,077</u>	<u>316,579</u>	-	<u>4,135,656</u>	<u>3,654,243</u>	<u>553,480</u>	-	<u>4,207,723</u>
	91,049,639	4,397,985	989,008	96,436,632	88,329,385	4,309,916	880,834	93,520,135
Net assets released from restrictions	2,107,933	(2,107,933)	-	-	2,376,729	(2,376,729)	-	-
Total Revenue, Support, and Reclassifications	<u>93,157,572</u>	<u>2,290,052</u>	<u>989,008</u>	<u>96,436,632</u>	<u>90,706,114</u>	<u>1,933,187</u>	<u>880,834</u>	<u>93,520,135</u>
OPERATING EXPENSES:								
Instruction	27,204,594	-	-	27,204,594	26,923,233	-	-	26,923,233
Academic support	7,123,473	-	-	7,123,473	7,004,340	-	-	7,004,340
Student development	16,783,203	-	-	16,783,203	16,036,454	-	-	16,036,454
Institutional support	16,714,197	-	-	16,714,197	16,132,416	-	-	16,132,416
Operation and maintenance of plant	7,314,127	-	-	7,314,127	7,798,756	-	-	7,798,756
Auxiliary services	9,017,995	-	-	9,017,995	8,784,795	-	-	8,784,795
Other expenses	1,166,117	-	-	1,166,117	493,466	-	-	493,466
Organized research	<u>505,114</u>	-	-	<u>505,114</u>	<u>507,572</u>	-	-	<u>507,572</u>
Total Expenses	<u>85,828,820</u>	<u>-</u>	<u>-</u>	<u>85,828,820</u>	<u>83,681,032</u>	<u>-</u>	<u>-</u>	<u>83,681,032</u>
Change in Net Assets from Operations	7,328,752	2,290,052	989,008	10,607,812	7,025,082	1,933,187	880,834	9,839,103
Other Changes in Non-Operating Activities:								
Net assets released for construction of long-lived assets	5,709,839	(5,709,839)	-	-	2,330,029	(2,330,029)	-	-
Net unrealized gain (loss) on investments	(685,370)	(1,758,759)	-	(2,444,129)	631,395	1,978,436	-	2,609,831
Net realized gain (loss) on investments	424,161	1,022,768	-	1,446,929	361,091	889,820	-	1,250,911
Trust and annuity actuarial gain	-	363,163	-	363,163	54,782	-	-	54,782
Present value adjustment to annuities payable	-	114,619	-	114,619	20,349	-	-	20,349
Annuity and trust net asset reclassification	(502,447)	502,447	-	-	-	-	-	-
Adjustment to swap agreement liability	(3,055)	-	-	(3,055)	240,418	-	-	240,418
Write off of unamortized debt issuance costs	-	-	-	-	(471,807)	-	-	(471,807)
Change in Net Assets	12,271,880	(3,175,549)	989,008	10,085,339	10,191,339	2,471,414	880,834	13,543,587
Net Assets, Beginning of Year	<u>88,220,699</u>	<u>12,987,825</u>	<u>21,103,220</u>	<u>122,311,744</u>	<u>78,029,360</u>	<u>10,516,411</u>	<u>20,222,386</u>	<u>108,768,157</u>
Net Assets, End of Year	<u>\$ 100,492,579</u>	<u>\$ 9,812,276</u>	<u>\$ 22,092,228</u>	<u>\$ 132,397,083</u>	<u>\$ 88,220,699</u>	<u>\$ 12,987,825</u>	<u>\$ 21,103,220</u>	<u>\$ 122,311,744</u>

See notes to combined financial statements

POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

Combined Statements of Cash Flows

	Year Ended June 30,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 10,085,339	\$ 13,543,587
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	4,274,188	4,718,555
Net realized and unrealized (gain) loss on investments	997,200	(3,860,742)
Write off of student accounts receivable	116,077	267,663
Capitalization of debt issuance costs	-	(10,176)
Gain on equity participation notes receivable	(13,742)	(64,937)
Write off of debt issuance costs	-	471,807
Adjustment to actuarial liability for annuities	(57,481)	81,778
Restricted capital contributions	(2,357,231)	(2,522,276)
Adjustment to swap agreement liability	3,055	(240,418)
Net change in:		
Student and accounts receivable	318,415	(2,000,932)
Other assets	421,397	(433,833)
Accounts payable	(652,703)	620,561
Accrued expenses and other liabilities	574,514	(69,917)
Amounts held for others	(1,215,445)	1,525,800
Deposits and deferred revenue	735,351	55,305
Federal student loan obligations	131,508	(50,525)
Net Cash Provided by Operating Activities	13,360,442	12,031,300
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant, and equipment	(25,412,890)	(6,426,629)
Sales of marketable securities	245,012	3,353,309
Purchases of marketable securities	(2,875,106)	(1,985,414)
Net proceeds from sale of real estate	1,150,448	227,783
Purchase of real estate	(1,386,315)	(216,275)
Issuance of equity participation notes receivable	(525,000)	-
Collections on notes receivable	(3,427,813)	305,438
Net Cash Used in Investing Activities	(32,231,664)	(4,741,788)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on long-term debt	(1,049,229)	(997,061)
Proceeds from additional long-term debt	10,000,000	1,027,828
Change in construction payable	6,452,880	198,205
Restricted capital contributions	2,357,231	2,522,276
Net Cash Provided by Financing Activities	17,760,882	2,751,248
Change in Cash and Cash Equivalents	(1,110,340)	10,040,760
Cash and Cash Equivalents, Beginning of Year	26,318,765	16,278,005
Cash and Cash Equivalents, End of Year	\$ 25,208,425	\$ 26,318,765
SUPPLEMENTAL INFORMATION:		
Cash paid during the year for interest (\$173,968 and \$0 capitalized, respectively)	\$ 1,485,480	\$ 1,506,579
Capital additions acquired construction payable	\$ 7,185,977	\$ 733,097
Refinanced bonds payable	\$ -	\$ 30,010,000
Debt financed loan fees	\$ -	\$ 403,742
Write off of fully depreciated fixed assets	\$ 2,558,413	\$ 1,209,108

See notes to combined financial statements

POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

Notes to Combined Financial Statements

June 30, 2015 and 2014

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 2,600 undergraduates and 900 graduate students, PLNU is committed to teaching, shaping, and sending its students into the world to make a positive difference.

PLNU is a nonprofit, religious 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.

Point Loma Nazarene University Out of State, LLC (PLNU Out of State) was incorporated in 2015. It exists to allow a third-party payroll company to pay out-of-state employees who work for PLNU. No financial activity occurs through the LLC as it was set up for purely legal purposes.

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 interest 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.

POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

Notes to Combined Financial Statements

June 30, 2015 and 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

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.

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 – 10 years

POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

Notes to Combined Financial Statements

June 30, 2015 and 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

DEBT ISSUANCE COSTS

Debt issuance costs are amortized on a straight-line basis over the term of the related outstanding debt and are reported net of accumulated amortization. Debt issuance cost amortization totaled \$21,785 and \$0 for the years ended June 30, 2015 and 2014 respectively. See note 9, Long Term Debt, for additional information on this debt.

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 maturity of an annuity or trust, any remaining reasonable commensurate value is recognized as, and included in, contributions in the appropriate net asset classification on the combined statements of activities.

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.

POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

Notes to Combined Financial Statements

June 30, 2015 and 2014

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. For instructional sessions that cross fiscal years, 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 14. 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. Currently, there are no joint costs which have been allocated among the program, general and administrative, and fundraising functions.

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, 2015 and 2014, advertising costs were \$869,371 and \$622,103, respectively.

RECLASSIFICATION

Certain amounts in the 2014 combined financial statements have been reclassified to conform with the 2015 presentation.

POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

Notes to Combined Financial Statements

June 30, 2015 and 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

UNCERTAIN TAX POSITIONS

The combined financial statement effects of a tax position taken or expected to be taken are recognized in the combined financial statements when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. Interest and penalties, if any, are included in expenses in the combined statements of activities. As of June 30, 2015 and 2014, the University had no uncertain tax positions that qualify for recognition or disclosure in the combined financial statements.

The University files information tax returns in the U.S. and California. The University is subject to income tax examinations for the current year and certain prior years based on the applicable laws and regulations.

STUDENT FINANCIAL ASSISTANCE PROGRAMS

The University participates in various programs administered by the Department of Education (DOE) and state boards, and the University acts as an agent for the respective agencies. The governmental grants amounts reported exclude funds directly awarded and credited to students under the various federal and state programs; however, substantial portions of the tuition and fees revenue and collection of accounts receivable as of June 30, 2015 and 2014, are dependent upon the University's continued participation in the various programs.

3. MARKETABLE SECURITIES:

Marketable securities consist of:

	June 30,	
	2015	2014
Fixed income	\$ 10,379,403	\$ 9,848,183
Common stocks	7,564,386	6,916,256
Installment note receivable	-	245,013
Mutual funds	25,924,885	26,114,699
Certificates of deposit	6,811,134	5,700,078
Cash and cash equivalents	2,965,824	3,188,509
	<u>53,645,632</u>	<u>52,012,738</u>
Less endowment investments	<u>(34,587,370)</u>	<u>(34,450,837)</u>
	<u>\$ 19,058,262</u>	<u>\$ 17,561,901</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 \$227,000 and \$205,000 during the years ended June 30, 2015 and 2014, respectively.

POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

Notes to Combined Financial Statements

June 30, 2015 and 2014

4. STUDENT RECEIVABLES:

The composition and aging of the student receivable portfolio consists of:

	June 30,	
	2015	2014
Student accounts:		
Current	\$ 227,935	\$ 159,312
31 - 90 days	766,167	536,667
91 - 180 days	554,602	308,277
Greater than 180 days	118,383	537
	1,667,087	1,004,793
Accounts in collection	1,029,824	937,591
Federal loans receivable	693,923	1,037,228
Allowance for doubtful accounts	(774,151)	(652,582)
	\$ 2,616,683	\$ 2,327,030

5. NOTES RECEIVABLE:

Notes receivable consists of:

	June 30,	
	2015	2014
Federal student loans	\$ 3,224,434	\$ 3,261,572
DRC Partners loan	3,428,944	-
Other notes receivable	524,515	476,129
Allowance for doubtful accounts	(27,572)	(36,448)
	\$ 7,150,321	\$ 3,701,253

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 DRC Partners loan was made in November 2014 in the original amount of \$3,500,000. Payment of principal and interest is amortized over 20 years with a 10-year call. Interest is fixed at 3.88% for the first five years and then fixed at the then-current 5-year Treasury Note plus 220 basis points for the remaining five years. The loan is secured by a first deed of trust on the Liberty Station Conference Center.

POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

Notes to Combined Financial Statements

June 30, 2015 and 2014

6. EQUITY PARTICIPATION NOTES RECEIVABLE:

In the late 1980's, in order to attract and retain key faculty and staff in a high-cost real estate market, the University developed a loan assistance program. These loans, which took the form of a second mortgage, are secured by a deed of trust on the property. Unlike conventional loans, however, there are no monthly payments, nor does interest accrue on the outstanding principal. Instead, the university shares in the appreciated value of the property at the time of a prescribed settlement event. Property purchased under this program is owned entirely by the participant, who is responsible for all taxes, insurance, operating, and maintenance costs of the property. As of June 30, 2015, the university believes its share of the estimated fair market value of the properties securing the notes receivable exceeds their carrying value.

7. 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,	
	2015	2014
Faculty housing	\$ 8,763,931	\$ 8,876,311
Flagstaff LLC	500,000	-
Other properties	391,151	542,904
	<u>\$ 9,655,082</u>	<u>\$ 9,419,215</u>

FLAGSTAFF LLC

In September 2014, the Foundation invested \$500,000 in a limited liability company established to acquire, manage, entitle, and ultimately sell a 197 acre parcel of real property located in Flagstaff, Arizona. The Foundation has an 8% interest in the LLC. In September 2015, the Foundation made an additional capital contribution of \$78,400 to the LLC.

POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

Notes to Combined Financial Statements

June 30, 2015 and 2014

8. PROPERTY, PLANT, AND EQUIPMENT:

Property, plant, and equipment consists of:

	June 30,	
	2015	2014
Land and improvements	\$ 5,797,581	\$ 5,921,818
Buildings and improvements	106,665,562	106,234,165
Equipment	13,445,869	13,071,302
Library books	3,769,096	3,855,520
	129,678,108	129,082,805
Less accumulated depreciation	(60,833,174)	(59,139,183)
	68,844,934	69,943,622
Construction in progress	27,167,619	4,908,444
Add debt issuance costs	392,133	413,918
Less debt and construction payable secured by property, plant, and equipment	(47,729,615)	(32,325,964)
Net investment in property, plant, and equipment	\$ 48,675,071	\$ 42,940,020

Depreciation expense totaled \$4,252,404 and \$4,595,345 for the years ended June 30, 2015 and 2014, respectively.

The total amount of assets recorded under capital lease totaled \$1,022,718 for the years ended June 30, 2015 and 2014. Accumulated depreciation of such assets amounted to \$869,310 and \$767,039 at June 30, 2015 and 2014, respectively.

POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

Notes to Combined Financial Statements

June 30, 2015 and 2014

9. LONG-TERM DEBT:

Long-term debt consists of:

	June 30,	
	2015	2014
Suntrust Leasing Corporation, original amount \$1,022,718 secured by equipment. Monthly principal and interest payments of \$11,211 (5.72%), due August 2015.	\$ 22,107	\$ 151,335
California Municipal Finance Authority Series 2014 Tax Exempt Variable Rate Loan, original amount of \$30,010,000. Principal payments are due annually starting on October 1, 2014. Interest is payable monthly. Maturity is October 1, 2033.	29,090,000	30,010,000
California Municipal Finance Authority Series 2014 Tax Exempt Fixed Rate Loans, authorized amount up to \$20,000,000. Interest payments are due monthly beginning June 1, 2014. Principal payments will commence on June 1, 2016. Maturity is April 30, 2044.	11,431,531	1,431,532
Other unsecured loans	7,500	7,500
	\$ 40,551,138	\$ 31,600,367

On May 1, 2014, First Republic Bank, California Municipal Finance Authority, and Point Loma Nazarene University entered into a Master Loan Agreement to fully refund the \$30,010,000 in outstanding ABAG Series 2008 bonds and to finance a portion of the construction of a new science building through a loan of up to \$20,000,000, for a combined total of up to \$50,100,000. The refunding portion of the debt is a variable rate loan. The construction loan is a fixed rate loan and contains a drawdown provision. The University maintains a derivative interest rate swap agreement to manage exposure to changes in interest rates as described in note 10.

Interest expense totaled \$1,676,915 and \$1,518,313 for the years ended June 30, 2015 and 2014, respectively.

POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

Notes to Combined Financial Statements

June 30, 2015 and 2014

9. LONG-TERM DEBT, continued:

LOAN COVENANTS

Both the ABAG bonds and CMFA loans contain covenants relating to, among other things, the maintenance of insurance, the maintenance of certain financial ratios, and financial reporting deadlines. As of June 30, 2015, the University was in compliance with all covenants.

Annual maturities are:

<u>Year Ending June 30,</u>	
2016	\$ 1,014,369
2017	1,420,018
2018	1,485,881
2019	1,552,359
2020	1,622,540
Thereafter	<u>33,455,971</u>
	<u>\$ 40,551,138</u>

10. 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 9 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. 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. In connection with the refunding of the ABAG 2008 bonds, the swap agreement was amended to reflect the \$30,010,000 variable rate loan refund through the California Municipal Finance Authority. As of June 30, 2015, this agreement had a fair value of (\$6,744,949), a change of \$3,055 from June 30, 2014. During June 2015, the variable interest rate received by the University was 0.39803%, while the rate paid on the CMFA variable rate loan was 1.37261%. The notional amount of the swap agreement was \$29,090,000 and \$30,885,000 on June 30, 2015 and 2014, respectively. The notional amount declines annually and expires on October 1, 2033. The swap agreement contains various financial and other covenants. As of June 30, 2015, the University was in compliance with all covenants.

The unrealized gains and 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.

POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

Notes to Combined Financial Statements

June 30, 2015 and 2014

10. INTEREST RATE SWAP AGREEMENT, continued:

The effects of derivative instruments on the combined financial statements were as follows as of June 30, 2015 and 2014, and for the years then ended:

FAIR VALUE OF DERIVATIVE INSTRUMENTS IN COMBINED STATEMENTS OF FINANCIAL POSITION

		Fair Value at June 30,	
		2015	2014
	Statement Location		
Fair value hedge:			
Interest rate cap agreement	Fair value of swap agreement liability	\$ 6,744,949	\$ 6,741,894

EFFECTS OF DERIVATIVE INSTRUMENTS ON COMBINED STATEMENTS OF ACTIVITIES

		Gain (loss) for year ended June 30,	
		2015	2014
	Statement Location		
Fair value hedge:			
Interest rate cap agreement	Adjustment to swap agreement liability	\$ (3,055)	\$ 240,418

11. OTHER INCOME:

Other income consists of:

	June 30,	
	2015	2014
Federal grants	\$ 1,040,923	\$ 1,318,894
Event Registrations	881,606	782,580
Class fees	552,962	835,610
Research funding	379,110	333,872
Student fees	346,025	339,998
Rental income	272,110	328,154
Miscellaneous	245,384	253,373
Fundraising	188,457	133,202
Sports camps	178,323	201,356
Consulting fees	33,396	-
Mission trips	17,359	13,493
	\$ 4,135,656	\$ 4,207,723

POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

Notes to Combined Financial Statements

June 30, 2015 and 2014

12. 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 \$106,000 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 \$141,000 annually.

13. LEASE COMMITMENTS:

The University leases its Bakersfield and Corona, California, campuses, program software, and certain equipment under non-cancelable operating lease agreements. Total rent expense was \$1,577,860 and \$1,135,953 for the years ended June 30, 2015 and 2014, respectively.

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

<u>Year Ending June 30,</u>	
2016	\$ 1,734,188
2017	1,491,140
2018	1,362,535
2019	1,096,782
2020	1,037,649
Thereafter	<u>1,025,412</u>
Total minimum lease payments	<u>\$ 7,747,706</u>

Included in total minimum lease payments are property use fees of \$3,124,511 based on the use agreement with DRC Partners for the conference center near the Point Loma campus.

Future minimum rentals to be received under non-cancelable subleases as of June 30, 2015, totaled approximately \$14,280.

14. FUNCTIONAL EXPENSE ALLOCATION:

The following is an allocation of expenses by function:

	<u>June 30,</u>	
	<u>2015</u>	<u>2014</u>
Program services	\$ 64,173,601	\$ 63,665,824
Supporting activities:		
General and administrative	19,991,786	18,427,931
Fundraising	<u>1,663,433</u>	<u>1,587,277</u>
	<u>\$ 85,828,820</u>	<u>\$ 83,681,032</u>

POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

Notes to Combined Financial Statements

June 30, 2015 and 2014

15. NET ASSETS:

Net assets consist of:

	June 30,	
	2015	2014
Unrestricted:		
Undesignated	\$ 26,676,808	\$ 24,443,278
Board designated endowment funds	25,140,700	20,837,401
Net investment in land, buildings, and equipment	48,675,071	42,940,020
	\$ 100,492,579	\$ 88,220,699
Temporarily restricted net assets are available for the following purposes:		
Annuity/life income plans	\$ 1,551,799	\$ 924,886
Student aid	7,839,530	8,128,767
Construction	67,636	3,580,861
Research grants and other	353,311	353,311
	\$ 9,812,276	\$ 12,987,825
Permanently restricted net assets are available for the following purposes:		
Endowed scholarship funds	\$ 21,717,447	\$ 20,728,439
Annuity scholarship funds (upon the death of the annuitants or beneficiaries)	374,781	374,781
	\$ 22,092,228	\$ 21,103,220
Net assets released from restrictions by purpose are:		
Construction of long-lived assets	\$ 5,709,839	\$ 2,330,029
Student development	407,721	563,168
Scholarships and grants	643,971	1,130,146
Payments to annuitants	165,854	156,185
Institutional support	167,360	91,785
Academic support	86,512	105,269
Research	177,461	209,225
Other	50,005	93,094
Maturing annuity	363,690	-
Instruction	45,359	27,857
	\$ 7,817,772	\$ 4,706,758

POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

Notes to Combined Financial Statements

June 30, 2015 and 2014

16. 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 \$2,292,338 and \$2,245,075 for the years ended June 30, 2015 and 2014, 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.

17. 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.

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

POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

Notes to Combined Financial Statements

June 30, 2015 and 2014

17. ENDOWMENTS, continued:

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 \$1,088,347 and \$735,786 for the years ending June 30, 2015 and 2014 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.

SPENDING POLICY AND HOW THE INVESTMENT OBJECTIVES RELATE TO SPENDING POLICY

During the year ended June 30, 2015, the University appropriated for expenditures out of its scholarship endowment 4.0% of the average fair market value over the 12 quarters prior to, and including, December 31 of the preceding year. In the previous year, the University appropriated 4.0% using the same average fair market value method.

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.

POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

Notes to Combined Financial Statements

June 30, 2015 and 2014

17. ENDOWMENTS, continued:

Endowment Net Asset Composition by Type of Fund as of June 30, 2015:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	\$ (1,088,347)	\$ 5,103,015	\$ 21,717,447	\$ 25,732,115
Board designated endowment funds	26,229,047	-	-	26,229,047
	\$ 25,140,700	\$ 5,103,015	\$ 21,717,447	\$ 51,961,162

Endowment Net Asset Composition by Type of Fund as of June 30, 2014:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	\$ (735,786)	\$ 5,795,714	\$ 20,728,439	\$ 25,788,367
Board designated endowment funds	21,573,187	-	-	21,573,187
	\$ 20,837,401	\$ 5,795,714	\$ 20,728,439	\$ 47,361,554

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, 2015 and 2014

17. ENDOWMENTS, continued:

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2015:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 20,837,401	\$ 5,795,714	\$ 20,728,439	\$ 47,361,554
Investment return:				
Investment income	63,864	373,850	277,580	715,294
Net losses (realized and unrealized)	(248,656)	(678,380)	-	(927,036)
Total investment return	(184,792)	(304,530)	277,580	(211,742)
Contributions	720	8,643	711,428	720,791
Appropriation of endowment assets for expenditure	-	(396,812)	-	(396,812)
Other changes:				
Transfers to create board-designated endowment funds	3,396,812	-	-	3,396,812
Board-designated endowment expenditures	1,090,559	-	-	1,090,559
	4,488,091	(388,169)	711,428	4,811,350
Endowment net assets, end of year	\$ 25,140,700	\$ 5,103,015	\$ 21,717,447	\$ 51,961,162

POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

Notes to Combined Financial Statements

June 30, 2015 and 2014

17. ENDOWMENTS, continued:

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2014:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 16,377,854	\$ 3,939,050	\$ 19,847,605	\$ 40,164,509
Investment return:				
Investment income	599,189	(245,510)	-	353,679
Net gains (realized and unrealized)	1,039,928	2,641,140	-	3,681,068
Total investment return	1,639,117	2,395,630	-	4,034,747
Contributions	690	17,160	880,834	898,684
Appropriation of endowment assets for expenditure	-	(556,126)	-	(556,126)
Other changes:				
Transfers to create board-designated endowment funds	3,656,126	-	-	3,656,126
Transfers to adjust endowments to actual Board-designated endowment expenditures	(402,499)	-	-	(402,499)
	(433,887)	-	-	(433,887)
	2,820,430	(538,966)	880,834	3,162,298
Endowment net assets, end of year	\$ 20,837,401	\$ 5,795,714	\$ 20,728,439	\$ 47,361,554

18. 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.

POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

Notes to Combined Financial Statements

June 30, 2015 and 2014

18. FAIR VALUE MEASUREMENTS, continued:

Fair values of assets measured on a recurring basis at June 30, 2015, are as follows:

	June 30, 2015	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	\$ 1,593,301	\$ 1,263,571	\$ 329,730	\$ -
Government bonds - foreign	44,872	-	44,872	-
Corporate bonds	7,426,855	6,746,964	679,891	-
Church bonds	50,890	-	-	50,890
Securitized	1,159,683	-	1,159,683	-
Municipals	4,322	-	4,322	-
Closed end	17,289	-	17,289	-
Other	82,191	-	82,191	-
Total fixed income	<u>10,379,403</u>	<u>8,010,535</u>	<u>2,317,978</u>	<u>50,890</u>
Common stocks:				
Domestic	7,463,157	7,049,582	413,575	-
Foreign	34,023	9,725	24,298	-
Diversifying	67,206	-	67,206	-
Total common stocks	<u>7,564,386</u>	<u>7,059,307</u>	<u>505,079</u>	<u>-</u>
Mutual funds:				
Equity Domestic	3,354,195	3,354,195	-	-
Equity Foreign	9,601,305	9,601,305	-	-
Fixed Income Domestic	9,622,798	9,622,798	-	-
Fixed Income Foreign	257,279	257,279	-	-
Commingled funds	11,890	-	11,890	-
Hedge funds	3,074,496	-	-	3,074,496
Miscellaneous	2,922	2,922	-	-
Total mutual funds	<u>25,924,885</u>	<u>22,838,499</u>	<u>11,890</u>	<u>3,074,496</u>
	<u>\$ 43,868,674</u>	<u>\$ 37,908,341</u>	<u>\$ 2,834,947</u>	<u>\$ 3,125,386</u>
Interest rate swap agreement liability	<u>\$ 6,744,949</u>	<u>\$ -</u>	<u>\$ 6,744,949</u>	<u>\$ -</u>

POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

Notes to Combined Financial Statements

June 30, 2015 and 2014

18. FAIR VALUE MEASUREMENTS, continued:

Fair values of assets measured on a recurring basis at June 30, 2014, are as follows:

	June 30, 2014	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	\$ 1,160,504	\$ 826,663	\$ 333,841	\$ -
Government bonds - foreign	183,426	-	183,426	-
Corporate bonds	7,107,858	6,631,598	476,260	-
Church bonds	50,890	-	-	50,890
Securitized	1,109,360	-	1,109,360	-
Other	236,145	-	236,145	-
Total fixed income	9,848,183	7,458,261	2,339,032	50,890
Common stocks:				
Domestic	6,281,703	5,873,905	407,798	-
Foreign	572,068	550,941	21,127	-
Diversifying	62,485	-	62,485	-
Total common stocks	6,916,256	6,424,846	491,410	-
Installment note receivable	245,013	-	-	245,013
Mutual funds:				
Equity Domestic	14,339,649	14,339,649	-	-
Equity Foreign	38,067	38,067	-	-
Fixed Income Domestic	8,558,765	8,558,765	-	-
Fixed Income Foreign	6,793	6,793	-	-
Hedge funds	3,014,504	-	-	3,014,504
Miscellaneous	156,921	156,921	-	-
Total mutual funds	26,114,699	23,100,195	-	3,014,504
	\$ 43,124,151	\$ 36,983,302	\$ 2,830,442	\$ 3,310,407
Interest rate swap agreement liability	\$ 6,741,894	\$ -	\$ 6,741,894	\$ -

POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

Notes to Combined Financial Statements

June 30, 2015 and 2014

19. 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 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.

Alternative investments (such as hedge funds or private equity funds) may invest in highly illiquid securities that may be difficult to value. The method of valuation of alternative investments and the securities in which they invest is determined by the investment manager using data supplied by the underlying fund managers and/or administrators of the alternative investments.

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,	
	2015	2014
Beginning balance	\$ 3,310,407	\$ 300,456
Total gains (realized and unrealized) included in net investment income	59,992	14,504
Principal payments received	(245,013)	(4,553)
Purchases, sales, issuances, and settlements (net)	-	3,000,000
Ending balance	<u>\$ 3,125,386</u>	<u>\$ 3,310,407</u>

POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

Notes to Combined Financial Statements

June 30, 2015 and 2014

19. RELATED PARTIES:

A member of the board of trustees is also the president of a financial institution at which the University has approximately \$7 million on deposit.

In October 2011, the University entered into a 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 for the year ended June 30, 2015 is \$28,892 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, 2015 and 2014, were \$341,537 and \$333,892 respectively.

In November 2014, the University provided a ten-year loan \$3,500,000 to DRC Partners. The note is captured on the statement of financial position under notes receivable (see note 5).

20. COMMITMENTS AND CONTINGENCIES:

Activity related to student financial assistance programs is subject to audit both by independent certified public accountants and by representatives of the administering agencies regarding compliance with applicable regulations. Any resultant findings of noncompliance could potentially result in the required return of related funds received and/or the assessment of fines or penalties, or the discontinuation of eligibility for participation. In the opinion of management, audit adjustments, if any, will not have a significant effect on the financial position or result of activities of the University.

21. CONSTRUCTION COMMITMENTS:

During the year ended June 30, 2015, the University continued a major construction project for a new science building. The University entered into project-related contracts approximating \$25,226,000, of which \$7,693,000 remained outstanding at June 30, 2015. Subsequent to year-end, the University paid approximately \$4,444,000 of the remaining outstanding contracts.

22. 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

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL INFORMATION

Board of Trustees
Point Loma Nazarene University and Affiliate
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, 2015 and 2014, and our report thereon dated October 23, 2015, which expressed an unmodified opinion on those 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 of the combined financial statements rather than to present the financial position and results of operations of the individual organizations, and it is 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 combining 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 23, 2015

POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

Supplemental Combining Statement of Financial Position

June 30, 2015

	PLNU	Foundation	Total
ASSETS:			
Cash and cash equivalents	\$ 25,208,425	\$ -	\$ 25,208,425
Marketable securities	13,634,714	5,423,548	19,058,262
Student receivables, net	2,613,314	3,369	2,616,683
Accounts receivable	457,041	-	457,041
Notes receivable, net	7,150,321	-	7,150,321
Due to / from	(1,261,340)	1,261,340	-
Other assets	1,236,260	73,793	1,310,053
Equity participation notes receivable	-	5,928,873	5,928,873
Debt issuance costs, net of amortization	392,133	-	392,133
Investments in real estate	-	9,655,082	9,655,082
Endowment investments	-	34,587,370	34,587,370
Construction in progress	27,167,619	-	27,167,619
Property, plant, and equipment, net of depreciation	68,844,934	-	68,844,934
	\$ 145,443,421	\$ 56,933,375	\$ 202,376,796
Total Assets			
 LIABILITIES AND NET ASSETS:			
Liabilities:			
Accounts payable	\$ 1,912,606	\$ -	\$ 1,912,606
Construction payable	7,185,977	-	7,185,977
Accrued expenses and other liabilities	4,142,132	-	4,142,132
Amounts held for others	1,482,567	-	1,482,567
Deposits and deferred revenue	2,765,725	1,600	2,767,325
Charitable trusts and annuities payable	(1,468)	1,675,084	1,673,616
Fair value of swap agreement liability	6,744,949	-	6,744,949
Federal student loan obligations	3,519,403	-	3,519,403
Long-term debt	40,543,638	7,500	40,551,138
	68,295,529	1,684,184	69,979,713
 Net assets:			
Unrestricted	73,679,771	26,812,808	100,492,579
Temporarily restricted	3,419,451	6,392,825	9,812,276
Permanently restricted	48,670	22,043,558	22,092,228
	77,147,892	55,249,191	132,397,083
Total Liabilities and Net Assets	\$ 145,443,421	\$ 56,933,375	\$ 202,376,796

POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

Supplemental Combining Statement of Financial Position

June 30, 2014

	PLNU	Foundation	Total
ASSETS:			
Cash and cash equivalents	\$ 26,318,765	\$ -	\$ 26,318,765
Marketable securities	12,415,514	5,146,387	17,561,901
Student receivables, net	2,323,633	3,397	2,327,030
Accounts receivable	1,181,186	-	1,181,186
Notes receivable, net	3,701,253	-	3,701,253
Due to / from	2,148,120	(2,148,120)	-
Other assets	1,700,903	30,547	1,731,450
Equity participation notes receivable	-	5,411,386	5,411,386
Debt issuance costs, net of amortization	413,918	-	413,918
Investments in real estate	-	9,419,215	9,419,215
Endowment investments	-	34,450,837	34,450,837
Construction in progress	4,908,444	-	4,908,444
Property, plant, and equipment, net of depreciation	69,943,622	-	69,943,622
Total Assets	\$ 125,055,358	\$ 52,313,649	\$ 177,369,007
LIABILITIES AND NET ASSETS:			
Liabilities:			
Accounts payable	\$ 2,565,309	\$ -	\$ 2,565,309
Construction payable	733,097	-	733,097
Accrued expenses and other liabilities	3,567,618	-	3,567,618
Amounts held for others	2,698,012	-	2,698,012
Deposits and deferred revenue	2,030,374	1,600	2,031,974
Charitable trusts and annuities payable	-	1,731,097	1,731,097
Fair value of swap agreement liability	6,741,894	-	6,741,894
Federal student loan obligations	3,387,895	-	3,387,895
Long-term debt	31,592,867	7,500	31,600,367
	53,317,066	1,740,197	55,057,263
Net assets:			
Unrestricted	65,020,027	23,200,672	88,220,699
Temporarily restricted	6,619,806	6,368,019	12,987,825
Permanently restricted	98,459	21,004,761	21,103,220
	71,738,292	50,573,452	122,311,744
Total Liabilities and Net Assets	\$ 125,055,358	\$ 52,313,649	\$ 177,369,007

POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

Supplemental Combining Statement of Activities

Year Ended June 30, 2015

	PLNU				Foundation				Combined Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
REVENUE, SUPPORT, AND RECLASSIFICATIONS:									
Student tuition and fees	\$ 86,750,165	\$ -	\$ -	\$ 86,750,165	\$ -	\$ -	\$ -	\$ -	\$ 86,750,165
Less student aid	(19,862,775)	-	-	(19,862,775)	(501,035)	-	-	(501,035)	(20,363,810)
	<u>66,887,390</u>	<u>-</u>	<u>-</u>	<u>66,887,390</u>	<u>(501,035)</u>	<u>-</u>	<u>-</u>	<u>(501,035)</u>	<u>66,386,355</u>
Auxiliary services	18,035,494	2,854	-	18,038,348	-	-	-	-	18,038,348
Private gifts and grants	2,573,676	3,471,651	-	6,045,327	720	238,220	711,428	950,368	6,995,695
Income on long-term investments	642,010	(48)	(49,789)	592,173	(407,693)	368,729	327,369	288,405	880,578
Other income	3,666,714	308,207	-	3,974,921	152,363	8,372	-	160,735	4,135,656
	<u>91,805,284</u>	<u>3,782,664</u>	<u>(49,789)</u>	<u>95,538,159</u>	<u>(755,645)</u>	<u>615,321</u>	<u>1,038,797</u>	<u>898,473</u>	<u>96,436,632</u>
Net assets released from restrictions	1,272,821	(1,272,821)	-	-	835,112	(835,112)	-	-	-
Total Revenue, Support, and Reclassifications	<u>93,078,105</u>	<u>2,509,843</u>	<u>(49,789)</u>	<u>95,538,159</u>	<u>79,467</u>	<u>(219,791)</u>	<u>1,038,797</u>	<u>898,473</u>	<u>96,436,632</u>
OPERATING EXPENSES:									
Instruction	27,204,594	-	-	27,204,594	-	-	-	-	27,204,594
Academic support	7,123,473	-	-	7,123,473	-	-	-	-	7,123,473
Student development	16,783,203	-	-	16,783,203	-	-	-	-	16,783,203
Institutional support	16,714,197	-	-	16,714,197	-	-	-	-	16,714,197
Operation and maintenance of plant	7,314,127	-	-	7,314,127	-	-	-	-	7,314,127
Auxiliary services	9,017,995	-	-	9,017,995	-	-	-	-	9,017,995
Other expenses	448,348	-	-	448,348	717,769	-	-	717,769	1,166,117
Organized research	505,114	-	-	505,114	-	-	-	-	505,114
Transfers	4,889,826	-	-	4,889,826	(4,889,826)	-	-	(4,889,826)	-
Total Expenses	<u>90,000,877</u>	<u>-</u>	<u>-</u>	<u>90,000,877</u>	<u>(4,172,057)</u>	<u>-</u>	<u>-</u>	<u>(4,172,057)</u>	<u>85,828,820</u>
Change in Net Assets from Operations	<u>3,077,228</u>	<u>2,509,843</u>	<u>(49,789)</u>	<u>5,537,282</u>	<u>4,251,524</u>	<u>(219,791)</u>	<u>1,038,797</u>	<u>5,070,530</u>	<u>10,607,812</u>
Other Changes in Non-Operating Activities:									
Net assets released for construction of long-lived assets	5,709,839	(5,709,839)	-	-	-	-	-	-	-
Net unrealized loss on investments	(115,422)	-	-	(115,422)	(569,948)	(1,758,759)	-	(2,328,707)	(2,444,129)
Net realized gain (loss) on investments	(8,846)	(359)	-	(9,205)	433,007	1,023,127	-	1,456,134	1,446,929
Trust and annuity actuarial gain	-	-	-	-	-	363,163	-	363,163	363,163
Present value adjustment to annuities payable	-	-	-	-	-	114,619	-	114,619	114,619
Annuity and trust net asset reclassification	-	-	-	-	(502,447)	502,447	-	-	-
Adjustment to swap agreement liability	(3,055)	-	-	(3,055)	-	-	-	-	(3,055)
Change in Net Assets	<u>8,659,744</u>	<u>(3,200,355)</u>	<u>(49,789)</u>	<u>5,409,600</u>	<u>3,612,136</u>	<u>24,806</u>	<u>1,038,797</u>	<u>4,675,739</u>	<u>10,085,339</u>
Net Assets, Beginning of Year	<u>65,020,027</u>	<u>6,619,806</u>	<u>98,459</u>	<u>71,738,292</u>	<u>23,200,672</u>	<u>6,368,019</u>	<u>21,004,761</u>	<u>50,573,452</u>	<u>122,311,744</u>
Net Assets, End of Year	<u>\$ 73,679,771</u>	<u>\$ 3,419,451</u>	<u>\$ 48,670</u>	<u>\$ 77,147,892</u>	<u>\$ 26,812,808</u>	<u>\$ 6,392,825</u>	<u>\$ 22,043,558</u>	<u>\$ 55,249,191</u>	<u>\$ 132,397,083</u>

POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

Supplemental Combining Statement of Activities

Year Ended June 30, 2014

	PLNU				Foundation				Combined Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
REVENUE, SUPPORT, AND RECLASSIFICATIONS:									
Student tuition and fees	\$ 83,128,560	\$ -	\$ -	\$ 83,128,560	\$ -	\$ -	\$ -	\$ -	\$ 83,128,560
Less student aid	(19,103,007)	-	-	(19,103,007)	(447,625)	-	-	(447,625)	(19,550,632)
	<u>64,025,553</u>	<u>-</u>	<u>-</u>	<u>64,025,553</u>	<u>(447,625)</u>	<u>-</u>	<u>-</u>	<u>(447,625)</u>	<u>63,577,928</u>
Auxiliary services	18,174,053	-	-	18,174,053	-	-	-	-	18,174,053
Private gifts and grants	1,923,890	3,798,737	-	5,722,627	690	175,430	880,834	1,056,954	6,779,581
Income on long-term investments	224,922	175,195	-	400,117	773,659	(392,926)	-	380,733	780,850
Other income	3,409,778	553,480	-	3,963,258	244,465	-	-	244,465	4,207,723
	<u>87,758,196</u>	<u>4,527,412</u>	<u>-</u>	<u>92,285,608</u>	<u>571,189</u>	<u>(217,496)</u>	<u>880,834</u>	<u>1,234,527</u>	<u>93,520,135</u>
Net assets released from restrictions	1,696,957	(1,696,957)	-	-	679,772	(679,772)	-	-	-
Total Revenue, Support, and Reclassifications	<u>89,455,153</u>	<u>2,830,455</u>	<u>-</u>	<u>92,285,608</u>	<u>1,250,961</u>	<u>(897,268)</u>	<u>880,834</u>	<u>1,234,527</u>	<u>93,520,135</u>
OPERATING EXPENSES:									
Instruction	26,923,233	-	-	26,923,233	-	-	-	-	26,923,233
Academic support	7,004,340	-	-	7,004,340	-	-	-	-	7,004,340
Student development	16,036,454	-	-	16,036,454	-	-	-	-	16,036,454
Institutional support	16,132,416	-	-	16,132,416	-	-	-	-	16,132,416
Operation and maintenance of plant	7,798,756	-	-	7,798,756	-	-	-	-	7,798,756
Auxiliary services	8,784,795	-	-	8,784,795	-	-	-	-	8,784,795
Other expenses	316,372	-	-	316,372	177,094	-	-	177,094	493,466
Organized research	507,572	-	-	507,572	-	-	-	-	507,572
Transfers	2,890,406	-	-	2,890,406	(2,890,406)	-	-	(2,890,406)	-
Total Expenses	<u>86,394,344</u>	<u>-</u>	<u>-</u>	<u>86,394,344</u>	<u>(2,713,312)</u>	<u>-</u>	<u>-</u>	<u>(2,713,312)</u>	<u>83,681,032</u>
Change in Net Assets from Operations	3,060,809	2,830,455	-	5,891,264	3,964,273	(897,268)	880,834	3,947,839	9,839,103
Other Changes in Non-Operating Activities:									
Net assets released for construction of long-lived assets	2,330,029	(2,330,029)	-	-	-	-	-	-	-
Net unrealized gain (loss) on investments	(107,438)	-	-	(107,438)	738,833	1,978,436	-	2,717,269	2,609,831
Net realized gain (loss) on investments	(4,940)	-	-	(4,940)	366,031	889,820	-	1,255,851	1,250,911
Trust and annuity actuarial gain	-	-	-	-	54,782	-	-	54,782	54,782
Present value adjustment to annuities payable	-	-	-	-	20,349	-	-	20,349	20,349
Adjustment to swap agreement liability	240,418	-	-	240,418	-	-	-	-	240,418
Write off of unamortized debt issuance costs	(471,807)	-	-	(471,807)	-	-	-	-	(471,807)
Change in Net Assets	5,047,071	500,426	-	5,547,497	5,144,268	1,970,988	880,834	7,996,090	13,543,587
Net Assets, Beginning of Year	<u>59,972,956</u>	<u>6,119,380</u>	<u>98,459</u>	<u>66,190,795</u>	<u>18,056,404</u>	<u>4,397,031</u>	<u>20,123,927</u>	<u>42,577,362</u>	<u>108,768,157</u>
Net Assets, End of Year	<u>\$ 65,020,027</u>	<u>\$ 6,619,806</u>	<u>\$ 98,459</u>	<u>\$ 71,738,292</u>	<u>\$ 23,200,672</u>	<u>\$ 6,368,019</u>	<u>\$ 21,004,761</u>	<u>\$ 50,573,452</u>	<u>\$ 122,311,744</u>