



**POINT LOMA**  
NAZARENE UNIVERSITY

POINT LOMA NAZARENE  
UNIVERSITY AND AFFILIATE

Combined Financial Statements  
With Independent Auditors' Report

June 30, 2014 and 2013

# 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, 2014 and 2013, 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, 2014 and 2013, 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, 2014

# POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

## Combined Statements of Financial Position

	June 30,	
	2014	2013
<b>ASSETS:</b>		
Cash and cash equivalents	\$ 30,420,419	\$ 20,379,659
Marketable securities	47,911,082	45,418,235
Student receivables, less allowance of \$652,582 and \$693,822 at June 30, 2014 and 2013, respectively	2,327,030	1,255,475
Accounts receivable	1,181,186	519,472
Notes receivable, less allowance of \$36,448 and \$50,230 at June 30, 2014 and 2013, respectively	3,701,253	3,629,332
Other assets	1,731,452	1,297,619
Equity participation notes receivable	5,411,386	5,723,808
Debt issuance costs, net of amortization	413,918	471,807
Investments in real estate	9,419,215	9,430,723
Construction in progress	4,908,444	1,740,544
Property, plant, and equipment, net of depreciation	69,943,622	71,403,448
 Total Assets	 \$ 177,369,007	 \$ 161,270,122
 <b>LIABILITIES AND NET ASSETS:</b>		
Liabilities:		
Accounts payable	\$ 2,565,309	\$ 1,944,748
Construction payable	733,097	534,892
Accrued expenses and other liabilities	3,567,618	3,637,535
Amounts held for others	2,698,012	1,172,212
Deposits and deferred revenue	2,031,974	1,976,669
Charitable trusts and annuities payable	1,731,097	1,649,319
Fair value of swap agreement liability	6,741,894	6,982,312
Federal student loan obligations	3,387,895	3,438,420
Long-term debt	31,600,367	31,165,858
	55,057,263	52,501,965
 Net assets:		
Unrestricted	88,220,699	78,029,360
Temporarily restricted	12,987,825	10,516,411
Permanently restricted	21,103,220	20,222,386
	122,311,744	108,768,157
 Total Liabilities and Net Assets	 \$ 177,369,007	 \$ 161,270,122

See notes to combined financial statements

# POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

## Combined Statements of Activities

	Year Ended June 30,							
	2014				2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>REVENUE, SUPPORT, AND RECLASSIFICATIONS:</b>								
Student tuition and fees	\$ 83,128,560	\$ -	\$ -	\$ 83,128,560	\$ 78,585,978	\$ -	\$ -	\$ 78,585,978
Less student aid	<u>(20,856,463)</u>	<u>-</u>	<u>-</u>	<u>(20,856,463)</u>	<u>(18,259,609)</u>	<u>-</u>	<u>-</u>	<u>(18,259,609)</u>
	62,272,097	-	-	62,272,097	60,326,369	-	-	60,326,369
Auxiliary services	17,510,200	-	-	17,510,200	16,444,450	-	-	16,444,450
Private gifts and grants	1,924,580	3,974,167	880,834	6,779,581	2,156,388	2,355,734	1,461,641	5,973,763
Income on long-term investments	998,581	(217,731)	-	780,850	622,495	195,350	-	817,845
Other income	<u>5,623,927</u>	<u>553,480</u>	<u>-</u>	<u>6,177,407</u>	<u>4,359,808</u>	<u>227</u>	<u>-</u>	<u>4,360,035</u>
	88,329,385	4,309,916	880,834	93,520,135	83,909,510	2,551,311	1,461,641	87,922,462
Net assets released from restrictions	<u>2,376,729</u>	<u>(2,376,729)</u>	<u>-</u>	<u>-</u>	<u>1,940,454</u>	<u>(1,842,960)</u>	<u>(97,494)</u>	<u>-</u>
<b>Total Revenue, Support, and Reclassifications</b>	<b><u>90,706,114</u></b>	<b><u>1,933,187</u></b>	<b><u>880,834</u></b>	<b><u>93,520,135</u></b>	<b><u>85,849,964</u></b>	<b><u>708,351</u></b>	<b><u>1,364,147</u></b>	<b><u>87,922,462</u></b>
<b>OPERATING EXPENSES:</b>								
Instruction	26,923,233	-	-	26,923,233	27,563,422	-	-	27,563,422
Academic support	7,004,340	-	-	7,004,340	6,482,903	-	-	6,482,903
Student development	16,036,454	-	-	16,036,454	15,181,032	-	-	15,181,032
Institutional support	16,132,416	-	-	16,132,416	14,629,541	-	-	14,629,541
Operation and maintenance of plant	7,798,756	-	-	7,798,756	7,535,441	-	-	7,535,441
Auxiliary services	8,784,795	-	-	8,784,795	8,057,483	-	-	8,057,483
Other expenses	493,466	-	-	493,466	1,232,455	-	-	1,232,455
Organized research	<u>507,572</u>	<u>-</u>	<u>-</u>	<u>507,572</u>	<u>359,850</u>	<u>-</u>	<u>-</u>	<u>359,850</u>
<b>Total Expenses</b>	<b><u>83,681,032</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>83,681,032</u></b>	<b><u>81,042,127</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>81,042,127</u></b>
Change in Net Assets from Operations	7,025,082	1,933,187	880,834	9,839,103	4,807,837	708,351	1,364,147	6,880,335
<b>Other Changes in Non-Operating Activities:</b>								
Net assets released for construction of long-lived assets	2,330,029	(2,330,029)	-	-	135,550	(135,550)	-	-
Net unrealized gain on investments	631,395	1,978,436	-	2,609,831	219,288	989,344	-	1,208,632
Net realized gain on investments	361,091	889,820	-	1,250,911	148,315	551,833	-	700,148
Trust and annuity actuarial gain	54,782	-	-	54,782	57,500	-	-	57,500
Present value adjustment to annuities payable	20,349	-	-	20,349	-	-	-	-
Adjustment to swap agreement liability	240,418	-	-	240,418	2,516,736	-	-	2,516,736
Write off of unamortized debt issuance costs	<u>(471,807)</u>	<u>-</u>	<u>-</u>	<u>(471,807)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in Net Assets	10,191,339	2,471,414	880,834	13,543,587	7,885,226	2,113,978	1,364,147	11,363,351
Net Assets, Beginning of Year	<u>78,029,360</u>	<u>10,516,411</u>	<u>20,222,386</u>	<u>108,768,157</u>	<u>70,144,134</u>	<u>8,402,433</u>	<u>18,858,239</u>	<u>97,404,806</u>
<b>Net Assets, End of Year</b>	<b><u>\$ 88,220,699</u></b>	<b><u>\$ 12,987,825</u></b>	<b><u>\$ 21,103,220</u></b>	<b><u>\$ 122,311,744</u></b>	<b><u>\$ 78,029,360</u></b>	<b><u>\$ 10,516,411</u></b>	<b><u>\$ 20,222,386</u></b>	<b><u>\$ 108,768,157</u></b>

See notes to combined financial statements

# POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

## Combined Statements of Cash Flows

	Year Ended June 30,	
	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 13,543,587	\$ 11,363,351
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	4,718,555	4,246,298
Net realized and unrealized gain on investments	(3,860,742)	(1,908,780)
Write off of student accounts receivable	267,663	165,428
Capitalization of debt issuance costs	(10,176)	-
Gain on equity participation notes receivable	(64,937)	(42,265)
Write off of debt issuance costs	471,807	-
Adjustment to actuarial liability for annuities	81,778	39,474
Restricted capital contributions	(2,522,276)	(1,093,037)
Adjustment to swap agreement liability	(240,418)	(2,516,736)
Net change in:		
Student and accounts receivable	(2,000,932)	283,665
Other assets	(433,833)	658,671
Accounts payable	620,561	(192,245)
Accrued expenses and other liabilities	(69,917)	301,127
Amounts held for others	1,525,800	(62,964)
Deposits and deferred revenue	55,305	(446,404)
Federal student loan obligations	(50,525)	43,381
Net Cash Provided by Operating Activities	12,031,300	10,838,964
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property, plant, and equipment	(6,426,629)	(4,368,185)
Sales of marketable securities	3,353,309	2,756,977
Purchases of marketable securities	(1,985,414)	(2,818,917)
Net proceeds from sale of real estate	227,783	806,189
Purchase of real estate	(216,275)	(350,220)
Issuance of equity participation notes receivable	-	(450,000)
Collections on notes receivable	305,438	224,919
Net Cash Used in Investing Activities	(4,741,788)	(4,199,237)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Payments on long-term debt	(997,061)	(950,291)
Proceeds from additional long-term debt	1,027,828	-
Payments on construction payable	198,205	(24,237)
Restricted capital contributions	2,522,276	1,093,037
Net Cash Provided by Financing Activities	2,751,248	118,509
Change in Cash and Cash Equivalents	10,040,760	6,758,236
Cash and Cash Equivalents, Beginning of Year	20,379,659	13,621,423
Cash and Cash Equivalents, End of Year	\$ 30,420,419	\$ 20,379,659
<b>SUPPLEMENTAL INFORMATION:</b>		
Cash paid during the year for interest (none capitalized)	\$ 1,506,579	\$ 1,553,537
Capital additions acquired construction payable	\$ 733,097	\$ 534,892
Refinanced bonds payable	\$ 30,010,000	\$ -
Debt financed loan fees	\$ 403,742	\$ -
Write off of fully depreciated fixed assets	\$ 1,209,108	\$ -

See notes to combined financial statements

# POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

## Notes to Combined Financial Statements

June 30, 2014 and 2013

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.

### 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.

### 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, 2014 and 2013

### 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 – 10 years

#### 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 \$0 and \$60,929 for each of the years ended June 30, 2014 and 2013, respectively. In May of 2014, the University paid off the ABAG 2008 bonds being held by Bank of America, and refinanced the debt with First Republic Bank. As a result, the remaining unamortized bond issuance costs related to the ABAG bonds, amounting to \$471,807, were written off. See note 6 for additional information on these bond issues.

# POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

## Notes to Combined Financial Statements

June 30, 2014 and 2013

### 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 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, 2014 and 2013

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

#### PUBLIC SUPPORT, REVENUE, AND EXPENSES

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

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

The University records tuition and other fees as earned. Tuition revenue is earned once the tuition is no longer refundable. Traditional school terms end prior to fiscal year-end. For non-traditional programs, revenue is prorated 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 10. 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, 2014 and 2013, advertising costs were \$622,103 and \$679,064, respectively.

#### RECLASSIFICATION

Certain amounts in the 2013 combined financial statements have been reclassified to conform with the 2014 presentation.

# POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

## Notes to Combined Financial Statements

June 30, 2014 and 2013

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, 2014 and 2013, 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 the delivery of student financial assistance programs under various programs administered by the Department of Education. The related activity is subject to audit both by independent certified public accountants and by representatives of the administering agency 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.

3. MARKETABLE SECURITIES:

Marketable securities consist of:

	June 30,	
	2014	2013
Fixed income	\$ 5,034,672	\$ 6,658,348
Common stocks	6,916,324	5,445,782
Installment note receivable	245,013	249,566
Mutual funds	26,826,486	24,053,734
Certificates of deposit	5,700,078	5,840,124
Money market funds	-	45,425
Cash and cash equivalents	3,188,509	3,125,256
	<u>\$ 47,911,082</u>	<u>\$ 45,418,235</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 \$205,000 and \$195,000 during the years ended June 30, 2014 and 2013, respectively.

# POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

## Notes to Combined Financial Statements

June 30, 2014 and 2013

4. 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,	
	2014	2013
Faculty housing	\$ 8,876,311	\$ 8,887,819
Other properties	542,904	542,904
	\$ 9,419,215	\$ 9,430,723

5. PROPERTY, PLANT, AND EQUIPMENT:

Property, plant, and equipment consists of:

	June 30,	
	2014	2013
Land and improvements	\$ 5,921,818	\$ 5,697,215
Buildings and improvements	106,234,165	104,846,736
Equipment	13,071,302	12,552,886
Library books	3,855,520	3,936,346
	129,082,805	127,033,183
Less accumulated depreciation	(59,139,183)	(55,629,735)
	69,943,622	71,403,448
Construction in progress	4,908,444	1,740,544
Add debt issuance costs	413,918	471,807
Less debt and construction payable secured by property, plant, and equipment	(32,325,964)	(31,693,250)
Net investment in property, plant, and equipment	\$ 42,940,020	\$ 41,922,549

Depreciation expense totaled \$4,595,345 and \$4,144,026 for the years ended June 30, 2014 and 2013, respectively.

The total amount of assets recorded under capital lease totaled \$1,022,718 for the years ended June 30, 2014 and 2013. Accumulated depreciation of such assets amounted to \$767,039 and \$664,767 at June 30, 2014 and 2013, respectively.

The total amount of capitalized website costs is \$125,630 and \$0 for the years ended June 30, 2014 and 2013, respectively. Accumulated amortization of such assets amounted to \$20,938 and \$0 at June 30, 2014 and 2013, respectively.

# POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

## Notes to Combined Financial Statements

June 30, 2014 and 2013

6. LONG-TERM DEBT:

Long-term debt consists of:

	June 30,	
	2014	2013
Suntrust Leasing Corporation, original amount \$1,022,718 secured by equipment. Monthly principal and interest payments of \$11,211 (5.72%), due April 2015.	\$ 151,335	\$ 273,358
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.	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 01, 2016. Maturity is April 30, 2044.	1,431,532	-
ABAG Finance Authority for Nonprofit Corporations (ABAG) Bonds, Series 2008, original amount of \$34,000,000. Principal payments are due annually starting on October 1, 2009. Interest is calculated and payable monthly. This debt was refinanced in May 2014.	-	30,885,000
Other unsecured loans	7,500	7,500
	\$ 31,600,367	\$ 31,165,858

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 7.

Interest expense totaled \$1,518,313 and \$1,552,019 for the years ended June 30, 2014 and 2013, respectively.

# POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

## Notes to Combined Financial Statements

June 30, 2014 and 2013

6. LONG-TERM DEBT, continued:

LOAN COVENANT

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, 2014, the University was in compliance with all covenants.

Annual maturities are:

<u>Year Ending June 30,</u>	
2015	\$ 1,049,229
2016	1,014,369
2017	1,420,018
2018	1,485,881
2019	1,552,359
Thereafter	<u>25,078,511</u>
	<u>\$ 31,600,367</u>

7. 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 6 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, 2014, this agreement had a fair value of (\$6,741,894), a change of \$240,418 from June 30, 2013. During June 2014, the variable interest rate received by the University was 0.3786%, while the rate paid on the CMFA variable rate loan was 1.35117%. The notional amount of the swap agreement was \$30,885,000 and \$30,010,000 on June 30, 2014 and 2013, 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, 2014, the University was in compliance with all covenants.

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.

# POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

## Notes to Combined Financial Statements

June 30, 2014 and 2013

7. INTEREST RATE SWAP AGREEMENT, continued:

The effects of derivative instruments on the combined financial statements were as follows as of June 30, 2014 and 2013, and for the years then ended:

FAIR VALUE OF DERIVATIVE INSTRUMENTS IN COMBINED STATEMENTS OF FINANCIAL POSITION

	Statement Location	Fair Value at June 30,	
		2014	2013
Fair value hedge:			
Interest rate cap agreement	Fair value of swap agreement	\$ 6,741,894	\$ 6,982,312

EFFECTS OF DERIVATIVE INSTRUMENTS ON COMBINED STATEMENTS OF ACTIVITIES

	Statement Location	Gain (loss) for year ended June 30,	
		2014	2013
Fair value hedge:			
Interest rate cap agreement	Adjustment to swap agreement	\$ 240,418	\$ 2,516,736

8. 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 \$94,000 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 \$140,000 annually.



# POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

## Notes to Combined Financial Statements

June 30, 2014 and 2013

9. LEASE COMMITMENTS:

The University leases its Bakersfield and Corona, California, campuses and certain equipment under non-cancelable operating lease agreements. Total rent expense was \$1,135,953 and \$1,072,986 for the years ended June 30, 2014 and 2013, 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>	
2015	\$ 1,045,363
2016	684,324
2017	532,143
2018	375,096
2019	382,583
Thereafter	<u>1,736,594</u>
Total minimum lease payments	<u>\$ 4,756,103</u>

Included in total minimum lease payments are property use fees of \$3,529,618 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, 2014, totaled approximately \$51,810.

10. FUNCTIONAL EXPENSE ALLOCATION:

The following is an allocation of expenses by function:

	<u>June 30,</u>	
	<u>2014</u>	<u>2013</u>
Program services	\$ 63,665,824	\$ 61,221,452
Supporting activities:		
General and administrative	18,427,931	17,969,722
Fundraising	<u>1,587,277</u>	<u>1,850,953</u>
	<u>\$ 83,681,032</u>	<u>\$ 81,042,127</u>

# POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

## Notes to Combined Financial Statements

June 30, 2014 and 2013

11. NET ASSETS:

Net assets consist of:

	June 30,	
	2014	2013
Unrestricted:		
Undesignated	\$ 24,493,067	\$ 19,728,957
Board designated endowment funds	20,787,612	16,377,854
Net investment in land, buildings, and equipment	42,940,020	41,922,549
	\$ 88,220,699	\$ 78,029,360
Temporarily restricted net assets are available for the following purposes:		
Annuity/life income plans	\$ 924,886	\$ 537,054
Student aid	8,128,767	6,236,710
Construction	3,580,861	3,389,334
Research grants and other	353,311	353,313
	\$ 12,987,825	\$ 10,516,411
Permanently restricted net assets are available for the following purposes:		
Endowed scholarship funds	\$ 20,728,439	\$ 19,847,605
Annuity scholarship funds (upon the death of the annuitants or beneficiaries)	374,781	374,781
	\$ 21,103,220	\$ 20,222,386
Net assets released from restrictions by purpose are:		
Construction of long-lived assets	\$ 2,330,029	\$ 135,550
Student development	563,168	440,075
Scholarships and grants	1,130,146	619,405
Payments to annuitants	156,185	86,751
Institutional support	91,785	49,372
Academic support	105,269	57,866
Research	209,225	100,233
Other	93,094	126,126
Maturing annuity	-	345,599
Instruction	27,857	17,533
	\$ 4,706,758	\$ 1,978,510

# POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

## Notes to Combined Financial Statements

June 30, 2014 and 2013

### 12. 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 \$2,245,095 and \$2,297,856 for the years ended June 30, 2014 and 2013, 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.

### 13. 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, 2014 and 2013

13. 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 were \$785,575 and \$1,543,109 as of June 30, 2014 and June 30, 2013, 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, 2014, the University appropriated for expenditures from 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, 2014 and 2013

13. ENDOWMENTS, continued:

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	\$ (785,575)	\$ 5,792,732	\$ 20,728,439	\$ 25,735,596
Board designated endowment funds	21,573,187	-	-	21,573,187
	\$ 20,787,612	\$ 5,792,732	\$ 20,728,439	\$ 47,308,783

Endowment Net Asset Composition by Type of Fund as of June 30, 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	\$ (1,543,109)	\$ 3,939,050	\$ 19,847,605	\$ 22,243,546
Board designated endowment funds	17,920,963	-	-	17,920,963
	\$ 16,377,854	\$ 3,939,050	\$ 19,847,605	\$ 40,164,509

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, 2014 and 2013

13. 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	(248,492)	-	350,697
Net gains (realized and unrealized)	1,039,928	2,641,140	-	3,681,068
Total investment return	1,639,117	2,392,648	-	4,031,765
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
Release of designation Board-designated endowment expenditures	(433,887)	-	-	(433,887)
	2,770,641	(538,966)	880,834	3,112,509
Endowment net assets, end of year	\$ 20,787,612	\$ 5,792,732	\$ 20,728,439	\$ 47,308,783

# POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

## Notes to Combined Financial Statements

June 30, 2014 and 2013

13. ENDOWMENTS, continued:

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2013:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	<u>\$ 14,137,587</u>	<u>\$ 3,108,534</u>	<u>\$ 18,483,458</u>	<u>\$ 35,729,579</u>
Investment return:				
Investment income	77,026	122,824	-	199,850
Net losses (realized and unrealized)	<u>573,816</u>	<u>1,230,606</u>	<u>-</u>	<u>1,804,422</u>
Total investment return	<u>650,842</u>	<u>1,353,430</u>	<u>-</u>	<u>2,004,272</u>
Contributions	<u>-</u>	<u>6,756</u>	<u>1,461,641</u>	<u>1,468,397</u>
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(529,670)</u>	<u>-</u>	<u>(529,670)</u>
Other changes:				
Transfers to create board-designated endowment funds	2,365,054	-	-	2,365,054
Transfers to adjust endowments to actual	-	-	(97,494)	(97,494)
Board-designated endowment expenditures	<u>(775,629)</u>	<u>-</u>	<u>-</u>	<u>(775,629)</u>
	<u>1,589,425</u>	<u>(522,914)</u>	<u>1,364,147</u>	<u>2,430,658</u>
Endowment net assets, end of year	<u>\$ 16,377,854</u>	<u>\$ 3,939,050</u>	<u>\$ 19,847,605</u>	<u>\$ 40,164,509</u>

14. 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, 2014 and 2013

14. FAIR VALUE MEASUREMENTS, continued:

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

	<u>June 30, 2014</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>
Marketable securities:				
Fixed income:				
Government bonds	\$ 1,769,013	\$ 826,663	\$ 942,350	\$ -
Government bonds - foreign	116,273	-	116,273	-
Corporate bonds	3,098,496	2,529,944	568,552	-
Church bonds	50,890	-	-	50,890
Total fixed income	<u>5,034,672</u>	<u>3,356,607</u>	<u>1,627,175</u>	<u>50,890</u>
Common stocks:				
Domestic	6,177,213	5,873,905	303,308	-
Foreign	739,111	550,941	188,170	-
Total common stocks	<u>6,916,324</u>	<u>6,424,846</u>	<u>491,478</u>	<u>-</u>
Installment note receivable	<u>245,013</u>	<u>-</u>	<u>-</u>	<u>245,013</u>
Mutual funds:				
Equity Domestic	14,339,649	14,339,649	-	-
Equity Foreign	38,067	38,067	-	-
Fixed Income Domestic	9,115,556	8,558,765	556,791	-
Fixed Income Foreign	161,789	6,793	154,996	-
Hedge funds	3,014,504	-	-	3,014,504
Miscellaneous	156,921	156,921	-	-
Total mutual funds	<u>26,826,486</u>	<u>23,100,195</u>	<u>711,787</u>	<u>3,014,504</u>
	<u>\$ 39,022,495</u>	<u>\$ 32,881,648</u>	<u>\$ 2,830,440</u>	<u>\$ 3,310,407</u>
Interest rate swap agreement liability	<u>\$ 6,741,894</u>	<u>\$ -</u>	<u>\$ 6,741,894</u>	<u>\$ -</u>



# POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

## Notes to Combined Financial Statements

June 30, 2014 and 2013

14. FAIR VALUE MEASUREMENTS, continued:

Fair values of assets measured on a recurring basis at June 30, 2013, are as follows:

	June 30, 2013	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	\$ 900,585	\$ 450,153	\$ 450,432	\$ -
Corporate bonds	5,706,873	5,706,873	-	-
Church bonds	50,890	-	-	50,890
Total fixed income	6,658,348	6,157,026	450,432	50,890
Common stocks:				
Domestic	5,206,384	5,206,384	-	-
Foreign	239,398	239,398	-	-
Total common stocks	5,445,782	5,445,782	-	-
Installment note receivable	249,566	-	-	249,566
Mutual funds:				
Equity Domestic	11,729,226	10,363,484	1,365,742	-
Equity Foreign	258,831	226,641	32,190	-
Fixed Income Domestic	11,901,504	11,262,437	639,067	-
Fixed Income Foreign	14,201	9,421	4,780	-
Commodities	9,324	9,324	-	-
Miscellaneous	75,183	75,183	-	-
Total mutual funds	24,053,734	22,011,955	2,041,779	-
Money market mutual funds	45,425	45,425	-	-
	\$ 36,452,855	\$ 33,660,188	\$ 2,492,211	\$ 300,456
Interest rate swap agreement liability	\$ 6,982,312	\$ -	\$ 6,982,312	\$ -

# POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

## Notes to Combined Financial Statements

June 30, 2014 and 2013

14. 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,	
	2014	2013
Beginning balance	\$ 300,456	\$ 345,456
Total gains (realized and unrealized) included in net investment income	14,504	-
Principal payments received	(4,553)	(45,000)
Purchases, sales, issuances, and settlements (net)	3,000,000	-
Ending balance	<u>\$ 3,310,407</u>	<u>\$ 300,456</u>

# POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

## Notes to Combined Financial Statements

June 30, 2014 and 2013

15. RELATED PARTIES:

A member of the board of trustees is also the president of a financial institution at which the University has approximately \$6 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 is \$28,187 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, 2014 and 2013, were \$333,892 and \$310,000, respectively.

16. SUBSEQUENT EVENTS:

Subsequent to June 30, 2014, the board approved a ten-year loan to DRC Partners for \$3,500,000 amortized over twenty years. The loan will have a fixed rate for five years and a variable rate for next the five years at the five-year treasury note yield plus a spread. The loan will be secured by a first deed of trust on the liberty station conference center. Approval of the loan is subject to legal review and has not yet been executed.

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, 2014 and 2013, and our report thereon dated October 23, 2014, 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.

*Capin Crouse LLP*

San Diego, California  
October 23, 2014

# POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

## Supplemental Combining Statement of Financial Position

June 30, 2014

	PLNU	Foundation	Total
<b>ASSETS:</b>			
Cash and cash equivalents	\$ 30,420,419	\$ -	\$ 30,420,419
Marketable securities	8,313,858	39,597,224	47,911,082
Student receivables, less allowance of \$652,582	2,323,633	3,397	2,327,030
Accounts receivable	1,181,186	-	1,181,186
Notes receivable, less allowance of \$36,448	3,701,253	-	3,701,253
Due to / from	2,148,120	(2,148,120)	-
Other assets	1,700,905	30,547	1,731,452
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
Construction in progress	4,908,444	-	4,908,444
Property, plant, and equipment, net of depreciation	69,943,622	-	69,943,622
	\$ 125,055,358	\$ 52,313,649	\$ 177,369,007
<b>LIABILITIES AND NET ASSETS:</b>			
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
<b>Total Liabilities and Net Assets</b>	<b>\$ 125,055,358</b>	<b>\$ 52,313,649</b>	<b>\$ 177,369,007</b>

# POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

## Supplemental Combining Statement of Financial Position

June 30, 2013

	PLNU	Foundation	Total
<b>ASSETS:</b>			
Cash and cash equivalents	\$ 20,361,287	\$ 18,372	\$ 20,379,659
Marketable securities	11,478,987	33,939,248	45,418,235
Student receivables, less allowance of \$693,822	1,252,078	3,397	1,255,475
Accounts receivable	519,472	-	519,472
Notes receivable, less allowance of \$50,230	3,629,332	-	3,629,332
Due to / from	4,977,935	(4,977,935)	-
Other assets	1,197,910	99,709	1,297,619
Equity participation notes receivable	-	5,723,808	5,723,808
Debt issuance costs, net of amortization	471,807	-	471,807
Investments in real estate	-	9,430,723	9,430,723
Construction in progress	1,740,544	-	1,740,544
Property, plant, and equipment, net of depreciation	71,403,448	-	71,403,448
	\$ 117,032,800	\$ 44,237,322	\$ 161,270,122
<b>LIABILITIES AND NET ASSETS:</b>			
Liabilities:			
Accounts payable	\$ 1,944,748	\$ -	\$ 1,944,748
Construction payable	534,892	-	534,892
Accrued expenses and other liabilities	3,635,994	1,541	3,637,535
Amounts held for others	1,172,212	-	1,172,212
Deposits and deferred revenue	1,975,069	1,600	1,976,669
Charitable trusts and annuities payable	-	1,649,319	1,649,319
Fair value of swap agreement liability	6,982,312	-	6,982,312
Federal student loan obligations	3,438,420	-	3,438,420
Long-term debt	31,158,358	7,500	31,165,858
	50,842,005	1,659,960	52,501,965
Net assets:			
Unrestricted	59,972,956	18,056,404	78,029,360
Temporarily restricted	6,119,380	4,397,031	10,516,411
Permanently restricted	98,459	20,123,927	20,222,386
	66,190,795	42,577,362	108,768,157
<b>Total Liabilities and Net Assets</b>	<b>\$ 117,032,800</b>	<b>\$ 44,237,322</b>	<b>\$ 161,270,122</b>

**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	
<b>REVENUE, SUPPORT, AND RECLASSIFICATIONS:</b>									
Student tuition and fees	\$ 83,128,560	\$ -	\$ -	\$ 83,128,560	\$ -	\$ -	\$ -	\$ -	\$ 83,128,560
Less student aid	(20,408,838)	-	-	(20,408,838)	(447,625)	-	-	(447,625)	(20,856,463)
	<u>62,719,722</u>	<u>-</u>	<u>-</u>	<u>62,719,722</u>	<u>(447,625)</u>	<u>-</u>	<u>-</u>	<u>(447,625)</u>	<u>62,272,097</u>
Auxiliary services	17,510,200	-	-	17,510,200	-	-	-	-	17,510,200
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	5,379,462	553,480	-	5,932,942	244,465	-	-	244,465	6,177,407
	<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)	-	-	-
<b>Total Revenue, Support, and Reclassifications</b>	<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>
<b>OPERATING EXPENSES:</b>									
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)	-
<b>Total Expenses</b>	<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>
<b>Change in Net Assets from Operations</b>	<b>3,060,809</b>	<b>2,830,455</b>	<b>-</b>	<b>5,891,264</b>	<b>3,964,273</b>	<b>(897,268)</b>	<b>880,834</b>	<b>3,947,839</b>	<b>9,839,103</b>
<b>Other Changes in Non-Operating Activities:</b>									
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 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)
<b>Change in Net Assets</b>	<b>5,047,071</b>	<b>500,426</b>	<b>-</b>	<b>5,547,497</b>	<b>5,144,268</b>	<b>1,970,988</b>	<b>880,834</b>	<b>7,996,090</b>	<b>13,543,587</b>
<b>Net Assets, Beginning of Year</b>	<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>
<b>Net Assets, End of Year</b>	<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>



**POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE**

**Supplemental Combining Statement of Activities**

Year Ended June 30, 2013

	PLNU				Foundation				Combined Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
<b>REVENUE, SUPPORT, AND RECLASSIFICATIONS:</b>									
Student tuition and fees	\$ 78,585,978	\$ -	\$ -	\$ 78,585,978	\$ -	\$ -	\$ -	\$ -	\$ 78,585,978
Less student aid	(17,832,020)	-	-	(17,832,020)	(427,589)	-	-	(427,589)	(18,259,609)
	<u>60,753,958</u>	<u>-</u>	<u>-</u>	<u>60,753,958</u>	<u>(427,589)</u>	<u>-</u>	<u>-</u>	<u>(427,589)</u>	<u>60,326,369</u>
Auxiliary services	16,444,450	-	-	16,444,450	-	-	-	-	16,444,450
Private gifts and grants	2,156,388	2,307,641	-	4,464,029	-	48,093	1,461,641	1,509,734	5,973,763
Income on long-term investments	265,448	175,097	-	440,545	357,047	20,253	-	377,300	817,845
Other income	4,243,699	-	-	4,243,699	116,109	227	-	116,336	4,360,035
	<u>83,863,943</u>	<u>2,482,738</u>	<u>-</u>	<u>86,346,681</u>	<u>45,567</u>	<u>68,573</u>	<u>1,461,641</u>	<u>1,575,781</u>	<u>87,922,462</u>
Net assets released from restrictions	932,739	(854,534)	(78,205)	-	1,007,715	(988,426)	(19,289)	-	-
<b>Total Revenue, Support, and Reclassifications</b>	<u>84,796,682</u>	<u>1,628,204</u>	<u>(78,205)</u>	<u>86,346,681</u>	<u>1,053,282</u>	<u>(919,853)</u>	<u>1,442,352</u>	<u>1,575,781</u>	<u>87,922,462</u>
<b>OPERATING EXPENSES:</b>									
Instruction	27,563,422	-	-	27,563,422	-	-	-	-	27,563,422
Academic support	6,482,903	-	-	6,482,903	-	-	-	-	6,482,903
Student development	15,181,032	-	-	15,181,032	-	-	-	-	15,181,032
Institutional support	14,629,541	-	-	14,629,541	-	-	-	-	14,629,541
Operation and maintenance of plant	7,535,441	-	-	7,535,441	-	-	-	-	7,535,441
Auxiliary services	8,057,483	-	-	8,057,483	-	-	-	-	8,057,483
Other expenses	463,441	-	-	463,441	769,014	-	-	769,014	1,232,455
Organized research	359,850	-	-	359,850	-	-	-	-	359,850
Transfers	705,625	-	-	705,625	(705,625)	-	-	(705,625)	-
<b>Total Expenses</b>	<u>80,978,738</u>	<u>-</u>	<u>-</u>	<u>80,978,738</u>	<u>63,389</u>	<u>-</u>	<u>-</u>	<u>63,389</u>	<u>81,042,127</u>
<b>Change in Net Assets from Operations</b>	<u>3,817,944</u>	<u>1,628,204</u>	<u>(78,205)</u>	<u>5,367,943</u>	<u>989,893</u>	<u>(919,853)</u>	<u>1,442,352</u>	<u>1,512,392</u>	<u>6,880,335</u>
<b>Other Changes in Non-Operating Activities:</b>									
Net unrealized gain (loss) on investments	(94,416)	-	-	(94,416)	313,704	989,344	-	1,303,048	1,208,632
Net realized gain on investments	(15,977)	-	-	(15,977)	164,292	551,833	-	716,125	700,148
Trust and annuity actuarial gain	-	-	-	-	57,500	-	-	57,500	57,500
Adjustment to swap agreement liability	2,516,736	-	-	2,516,736	-	-	-	-	2,516,736
<b>Change in Net Assets</b>	<u>6,224,287</u>	<u>1,628,204</u>	<u>(78,205)</u>	<u>7,774,286</u>	<u>1,525,389</u>	<u>621,324</u>	<u>1,442,352</u>	<u>3,589,065</u>	<u>11,363,351</u>
<b>Net Assets, Beginning of Year</b>	<u>53,613,119</u>	<u>4,626,726</u>	<u>176,664</u>	<u>58,416,509</u>	<u>16,531,015</u>	<u>3,775,707</u>	<u>18,681,575</u>	<u>38,988,297</u>	<u>97,404,806</u>
<b>Net Assets, End of Year</b>	<u>\$ 59,837,406</u>	<u>\$ 6,254,930</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>