



POINT LOMA NAZARENE UNIVERSITY AND
AFFILIATE

Combined Financial Statements
With Independent Auditors' Report

June 30, 2016 and 2015

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, 2016 and 2015, 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, 2016 and 2015, 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 27, 2016

POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

Combined Statements of Financial Position

| | June 30, | |
|---|----------------|----------------|
| | 2016 | 2015 |
| ASSETS: | | |
| Cash and cash equivalents | \$ 32,142,063 | \$ 25,208,425 |
| Marketable securities | 18,863,520 | 19,058,262 |
| Student receivables, net | 3,557,508 | 2,616,683 |
| Accounts receivable | 388,523 | 457,041 |
| Notes receivable, net | 7,335,061 | 7,150,321 |
| Other assets | 2,290,883 | 1,310,053 |
| Equity participation notes receivable | 5,118,942 | 5,928,873 |
| Debt issuance costs, net of amortization | 370,348 | 392,133 |
| Investments in real estate | 8,712,888 | 9,655,082 |
| Endowment investments | 35,048,325 | 34,587,370 |
| Construction in progress | 2,132,737 | 27,167,619 |
| Property, plant, and equipment, net of depreciation | 98,606,804 | 68,844,934 |
| Total Assets | \$ 214,567,602 | \$ 202,376,796 |
| LIABILITIES AND NET ASSETS: | | |
| Liabilities: | | |
| Accounts payable | \$ 3,238,140 | \$ 1,912,606 |
| Construction payable | 412,924 | 7,185,977 |
| Accrued expenses and other liabilities | 4,509,090 | 4,142,132 |
| Amounts held for others | 1,515,453 | 1,482,567 |
| Deposits and deferred revenue | 4,423,118 | 2,767,325 |
| Charitable trusts and annuities payable | 1,496,009 | 1,673,616 |
| Fair value of swap agreement liability | 8,101,799 | 6,744,949 |
| Federal student loan obligations | 2,941,606 | 3,519,403 |
| Long-term debt | 48,103,155 | 40,551,138 |
| | 74,741,294 | 69,979,713 |
| Net assets: | | |
| Unrestricted | 106,027,274 | 100,492,579 |
| Temporarily restricted | 10,533,318 | 9,812,276 |
| Permanently restricted | 23,265,716 | 22,092,228 |
| | 139,826,308 | 132,397,083 |
| Total Liabilities and Net Assets | \$ 214,567,602 | \$ 202,376,796 |

See notes to combined financial statements

POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

Combined Statements of Activities

| | Year Ended June 30, | | | | | | | |
|---|-----------------------|---------------------------|---------------------------|-----------------------|-----------------------|---------------------------|---------------------------|-----------------------|
| | 2016 | | | | 2015 | | | |
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| REVENUE, SUPPORT, AND RECLASSIFICATIONS: | | | | | | | | |
| Student tuition and fees | \$ 96,591,475 | \$ - | \$ - | \$ 96,591,475 | \$ 86,750,165 | \$ - | \$ - | \$ 86,750,165 |
| Less student aid | <u>(23,377,100)</u> | - | - | <u>(23,377,100)</u> | <u>(20,363,810)</u> | - | - | <u>(20,363,810)</u> |
| | 73,214,375 | - | - | 73,214,375 | 66,386,355 | - | - | 66,386,355 |
| Auxiliary services | 18,457,714 | - | - | 18,457,714 | 18,035,494 | 2,854 | - | 18,038,348 |
| Private gifts and grants | 2,093,070 | 3,003,057 | 1,151,692 | 6,247,819 | 2,574,396 | 3,709,871 | 711,428 | 6,995,695 |
| Income on long-term investments | 332,642 | 672,758 | 21,796 | 1,027,196 | 234,317 | 368,681 | 277,580 | 880,578 |
| Other income | <u>3,298,465</u> | <u>537,128</u> | - | <u>3,835,593</u> | <u>3,819,077</u> | <u>316,579</u> | - | <u>4,135,656</u> |
| | 97,396,266 | 4,212,943 | 1,173,488 | 102,782,697 | 91,049,639 | 4,397,985 | 989,008 | 96,436,632 |
| Net assets released from restrictions | 2,438,088 | <u>(2,438,088)</u> | - | - | 2,107,933 | <u>(2,107,933)</u> | - | - |
| Total Revenue, Support, and Reclassifications | <u>99,834,354</u> | <u>1,774,855</u> | <u>1,173,488</u> | <u>102,782,697</u> | <u>93,157,572</u> | <u>2,290,052</u> | <u>989,008</u> | <u>96,436,632</u> |
| OPERATING EXPENSES: | | | | | | | | |
| Instruction | 29,654,014 | - | - | 29,654,014 | 27,320,166 | - | - | 27,320,166 |
| Academic support | 7,063,353 | - | - | 7,063,353 | 7,100,304 | - | - | 7,100,304 |
| Student development | 18,332,398 | - | - | 18,332,398 | 16,692,949 | - | - | 16,692,949 |
| Institutional support | 19,215,258 | - | - | 19,215,258 | 16,714,197 | - | - | 16,714,197 |
| Operation and maintenance of plant | 7,549,242 | - | - | 7,549,242 | 7,312,604 | - | - | 7,312,604 |
| Auxiliary services | 9,561,905 | - | - | 9,561,905 | 9,017,369 | - | - | 9,017,369 |
| Other expenses | 928,829 | - | - | 928,829 | 1,166,117 | - | - | 1,166,117 |
| Organized research | <u>398,873</u> | - | - | <u>398,873</u> | <u>505,114</u> | - | - | <u>505,114</u> |
| Total Expenses | <u>92,703,872</u> | - | - | <u>92,703,872</u> | <u>85,828,820</u> | - | - | <u>85,828,820</u> |
| Change in Net Assets from Operations | 7,130,482 | 1,774,855 | 1,173,488 | 10,078,825 | 7,328,752 | 2,290,052 | 989,008 | 10,607,812 |
| 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 | (693,981) | (1,851,795) | - | (2,545,776) | (685,370) | (1,758,759) | - | (2,444,129) |
| Net realized gain on investments | 274,360 | 797,982 | - | 1,072,342 | 424,161 | 1,022,768 | - | 1,446,929 |
| Trust and annuity actuarial gain | 159,158 | - | - | 159,158 | - | 363,163 | - | 363,163 |
| Present value adjustment to annuities payable | 21,526 | - | - | 21,526 | - | 114,619 | - | 114,619 |
| Annuity and trust net asset reclassification | - | - | - | - | (502,447) | 502,447 | - | - |
| Adjustment to swap agreement liability | <u>(1,356,850)</u> | - | - | <u>(1,356,850)</u> | <u>(3,055)</u> | - | - | <u>(3,055)</u> |
| Change in Net Assets | 5,534,695 | 721,042 | 1,173,488 | 7,429,225 | 12,271,880 | (3,175,549) | 989,008 | 10,085,339 |
| Net Assets, Beginning 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> |
| Net Assets, End of Year | <u>\$ 106,027,274</u> | <u>\$ 10,533,318</u> | <u>\$ 23,265,716</u> | <u>\$ 139,826,308</u> | <u>\$ 100,492,579</u> | <u>\$ 9,812,276</u> | <u>\$ 22,092,228</u> | <u>\$ 132,397,083</u> |

See notes to combined financial statements

POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

Combined Statements of Cash Flows

| | Year Ended June 30, | |
|---|---------------------|---------------|
| | 2016 | 2015 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Change in net assets | \$ 7,429,225 | \$ 10,085,339 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | 5,179,159 | 4,274,188 |
| Net realized and unrealized loss on investments | 1,473,434 | 997,200 |
| Write off of student accounts receivable | 319,667 | 116,077 |
| Gain (loss) on equity participation notes receivable | 245,597 | (13,742) |
| Adjustment to actuarial liability for annuities | (177,607) | (57,481) |
| Restricted capital contributions | (909,953) | (2,357,231) |
| Adjustment to swap agreement liability | 1,356,850 | 3,055 |
| Net change in: | | |
| Student and accounts receivable | (1,191,974) | 318,415 |
| Other assets | (980,830) | 421,397 |
| Accounts payable | 1,325,534 | (652,703) |
| Accrued expenses and other liabilities | 366,958 | 574,514 |
| Amounts held for others | 32,886 | (1,215,445) |
| Deposits and deferred revenue | 1,655,793 | 735,351 |
| Federal student loan obligations | (577,797) | 131,508 |
| Net Cash Provided by Operating Activities | 15,546,942 | 13,360,442 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of property, plant, and equipment | (9,884,362) | (25,412,890) |
| Sales of marketable securities | - | 245,012 |
| Purchases of marketable securities | (1,739,647) | (2,875,106) |
| Net proceeds from sale of real estate | 1,022,593 | 1,150,448 |
| Purchase of real estate | (80,399) | (1,386,315) |
| Issuance of equity participation notes receivable | (119,500) | (525,000) |
| Collections on notes receivable | 499,094 | (3,427,813) |
| Net Cash Used in Investing Activities | (10,302,221) | (32,231,664) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Payments on long-term debt | (1,016,452) | (1,049,229) |
| Proceeds from additional long-term debt | 8,568,469 | 10,000,000 |
| Change in construction payable | (6,773,053) | 6,452,880 |
| Restricted capital contributions | 909,953 | 2,357,231 |
| Net Cash Provided by Financing Activities | 1,688,917 | 17,760,882 |
| Change in Cash and Cash Equivalents | 6,933,638 | (1,110,340) |
| Cash and Cash Equivalents, Beginning of Year | 25,208,425 | 26,318,765 |
| Cash and Cash Equivalents, End of Year | \$ 32,142,063 | \$ 25,208,425 |
| SUPPLEMENTAL INFORMATION: | | |
| Cash paid during the year for interest | | |
| (\$94,866 and \$173,968 capitalized, respectively) | \$ 1,908,170 | \$ 1,485,480 |
| Capital additions acquired through construction payable | \$ 412,924 | \$ 7,185,977 |
| Write off of fully depreciated fixed assets | \$ 7,746,814 | \$ 2,558,413 |

See notes to combined financial statements

POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

Notes to Combined Financial Statements

June 30, 2016 and 2015

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 3,000 undergraduates and 1,000 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, 2016 and 2015

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, 2016 and 2015

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 for each of the years ended June 30, 2016 and 2015. 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, 2016 and 2015

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, 2016 and 2015, advertising costs were \$1,707,963 and \$869,371, respectively.

RECLASSIFICATION

Certain amounts in the 2015 combined financial statements have been reclassified to conform with the 2016 presentation.

POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

Notes to Combined Financial Statements

June 30, 2016 and 2015

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, 2016 and 2015, 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, 2016 and 2015, are dependent upon the University's continued participation in the various programs.

3. MARKETABLE SECURITIES:

Marketable securities consist of:

| | June 30, | |
|----------------------------|----------------------|----------------------|
| | 2016 | 2015 |
| Fixed income | \$ 9,957,550 | \$ 10,379,403 |
| Common stocks | 529,726 | 7,564,386 |
| Mutual funds | 33,489,917 | 25,924,885 |
| Certificates of deposit | 6,914,506 | 6,811,134 |
| Cash and cash equivalents | 3,020,146 | 2,965,824 |
| | <u>53,911,845</u> | <u>53,645,632</u> |
| Less endowment investments | <u>(35,048,325)</u> | <u>(34,587,370)</u> |
| | <u>\$ 18,863,520</u> | <u>\$ 19,058,262</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 \$198,000 and \$227,000 during the years ended June 30, 2016 and 2015, respectively.

POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

Notes to Combined Financial Statements

June 30, 2016 and 2015

4. STUDENT RECEIVABLES:

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

| | June 30, | |
|---------------------------------|--------------|--------------|
| | 2016 | 2015 |
| Student accounts: | | |
| Current | \$ 311,791 | \$ 227,935 |
| 31 - 90 days | 1,044,038 | 766,167 |
| 91 - 180 days | 238,573 | 554,602 |
| Greater than 180 days | 300 | 118,383 |
| | 1,594,702 | 1,667,087 |
| Accounts in collection | 1,194,711 | 1,029,824 |
| Federal loans receivable | 1,631,469 | 693,923 |
| Allowance for doubtful accounts | (863,374) | (774,151) |
| | \$ 3,557,508 | \$ 2,616,683 |

5. NOTES RECEIVABLE:

Notes receivable consist of:

| | June 30, | |
|---------------------------------|--------------|--------------|
| | 2016 | 2015 |
| Federal student loans | \$ 3,171,111 | \$ 3,224,434 |
| DRC Partners loan | 3,307,987 | 3,428,944 |
| Point Loma Trust loan | 693,000 | - |
| Other notes receivable | 377,092 | 524,515 |
| Allowance for doubtful accounts | (214,129) | (27,572) |
| | \$ 7,335,061 | \$ 7,150,321 |

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, 2016 and 2015

5. NOTES RECEIVABLE, continued:

During the year ended June 30, 2016, the University loaned \$693,000 to the Point Loma Trust to assist with its start-up expenses. The Point Loma Trust was organized in January 2016 as a related but independent organization from PLNU and the Foundation. The financial statements of Point Loma Trust are not required to be combined into the financial statements of the University because Point Loma Trust has a separate and independent board of directors. The purpose of the Point Loma Trust is to benefit and help sustain PLNU and the Foundation financially through a variety of investments and operating entities. The loan, dated June 30, 2016, is unsecured and carries an interest rate of 5%. The loan requires interest only payments annually (on or before June 30) for four years with all unpaid principal and accrued interest due on or before June 30, 2021.

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, 2016, 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, | |
|------------------|---------------------|---------------------|
| | 2016 | 2015 |
| Faculty housing | \$ 7,743,337 | \$ 8,763,931 |
| Flagstaff LLC | 578,400 | 500,000 |
| Other properties | 391,151 | 391,151 |
| | <u>\$ 8,712,888</u> | <u>\$ 9,655,082</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. In October 2016, the Foundation made an additional capital contribution of \$192,000 to the LLC.

POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

Notes to Combined Financial Statements

June 30, 2016 and 2015

8. PROPERTY, PLANT, AND EQUIPMENT:

Property, plant, and equipment consists of:

| | June 30, | |
|---|---------------|---------------|
| | 2016 | 2015 |
| Land and improvements | \$ 6,868,553 | \$ 5,797,581 |
| Buildings and improvements | 130,674,639 | 106,665,562 |
| Equipment | 15,628,111 | 13,445,869 |
| Library books | 3,679,235 | 3,769,096 |
| | 156,850,538 | 129,678,108 |
| Less accumulated depreciation | (58,243,734) | (60,833,174) |
| | 98,606,804 | 68,844,934 |
| Construction in progress | 2,132,737 | 27,167,619 |
| Add debt issuance costs | 370,348 | 392,133 |
| Less debt and construction payable secured by property, plant, and equipment | (48,508,579) | (47,729,615) |
| Net investment in property, plant, and equipment | \$ 52,601,310 | \$ 48,675,071 |

Depreciation expense totaled \$5,137,978 and \$4,252,404 for the years ended June 30, 2016 and 2015, respectively.

The total amount of assets recorded under capital lease totaled \$1,079,940 for the years ended June 30, 2016 and 2015. Accumulated depreciation of such assets amounted to \$1,028,805 and \$926,533 at June 30, 2016 and 2015, respectively.

POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

Notes to Combined Financial Statements

June 30, 2016 and 2015

9. LONG-TERM DEBT:

Long-term debt consists of:

| | June 30, | |
|--|---------------|---------------|
| | 2016 | 2015 |
| Suntrust Leasing Corporation, original amount \$1,022,718 secured by equipment. Monthly principal and interest payments of \$11,211 (5.72%), paid August 2015. | \$ - | \$ 22,107 |
| 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. The University maintains a derivative interest rate swap agreement to manage exposure to changes in interest rates on this loan (see note 10). | 28,130,000 | 29,090,000 |
| 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 commenced on June 1, 2016. Maturity is April 30, 2044. | 19,965,655 | 11,431,531 |
| Other unsecured loans | 7,500 | 7,500 |
| | \$ 48,103,155 | \$ 40,551,138 |

Interest expense totaled \$2,044,044 and \$1,676,915 for the years ended June 30, 2016 and 2015, respectively.

LOAN COVENANTS

The 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, 2016, the University was in compliance with all covenants.

POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

Notes to Combined Financial Statements

June 30, 2016 and 2015

9. LONG-TERM DEBT, continued:

Annual maturities are:

| <u>Year Ending June 30,</u> | |
|-----------------------------|----------------------|
| 2017 | \$ 1,417,935 |
| 2018 | 1,485,881 |
| 2019 | 1,552,359 |
| 2020 | 1,622,540 |
| 2021 | 1,697,176 |
| Thereafter | <u>40,327,264</u> |
| | <u>\$ 48,103,155</u> |

10. INTEREST RATE SWAP AGREEMENT:

The University maintains an interest rate swap agreement to manage the economic effect of interest rate changes associated with the CMFA variable rate loan described in note 9. Under the swap agreement, the University agreed to pay a fixed rate of 4.1663% 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. During June 2016, the variable interest rate received by the University was 0.55379%, while the rate paid on the CMFA variable rate loan was 1.564598%. The notional amount of the swap agreement was \$28,130,000 and \$29,090,000 on June 30, 2016 and 2015, 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, 2016, 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, 2016 and 2015

10. INTEREST RATE SWAP AGREEMENT, continued:

The effects of derivative instruments on the combined financial statements were as follows as of June 30, 2016 and 2015, and for the years then ended:

FAIR VALUE OF DERIVATIVE INSTRUMENTS IN COMBINED STATEMENTS OF FINANCIAL POSITION

| | Statement Location | Fair Value at June 30, | |
|-----------------------------|--|------------------------|--------------|
| | | 2016 | 2015 |
| Fair value hedge: | | | |
| Interest rate cap agreement | Fair value of swap agreement liability | \$ 8,101,799 | \$ 6,744,949 |

EFFECTS OF DERIVATIVE INSTRUMENTS ON COMBINED STATEMENTS OF ACTIVITIES

| | Statement Location | Gain (loss) for year ended June 30, | |
|-----------------------------|--|--|------------|
| | | 2016 | 2015 |
| Fair value hedge: | | | |
| Interest rate cap agreement | Adjustment to swap agreement liability | \$ (1,356,850) | \$ (3,055) |

11. OTHER INCOME:

Other income consists of:

| | June 30, | |
|---------------------|--------------|--------------|
| | 2016 | 2015 |
| Federal grants | \$ 1,019,986 | \$ 1,040,923 |
| Event registrations | 426,777 | 881,606 |
| Class fees | 326,683 | 552,962 |
| Research funding | 186,877 | 379,110 |
| Student fees | 564,257 | 346,025 |
| Rental income | 109,063 | 272,110 |
| Miscellaneous | 669,501 | 245,385 |
| Fundraising | 192,644 | 188,457 |
| Sports camps | 281,299 | 178,323 |
| Consulting fees | 48,813 | 33,396 |
| Mission trips | 9,693 | 17,359 |
| | \$ 3,835,593 | \$ 4,135,656 |

POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

Notes to Combined Financial Statements

June 30, 2016 and 2015

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 \$117,000 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 \$166,000 annually.

13. LEASE COMMITMENTS:

The University leases its Bakersfield, California campus, program software, and certain equipment under non-cancelable operating lease agreements. Total rent expense was \$1,141,633 and \$1,577,860 for the years ended June 30, 2016 and 2015, 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> | | |
|------------------------------|----|-------------------------|
| 2017 | \$ | 1,333,803 |
| 2018 | | 1,250,744 |
| 2019 | | 1,110,172 |
| 2020 | | 709,750 |
| 2021 | | 393,901 |
| Thereafter | | <u>958,399</u> |
| Total minimum lease payments | \$ | <u><u>5,756,769</u></u> |

Included in total minimum lease payments are property use fees of \$3,539,554 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, 2016, totaled approximately \$14,420.

14. FUNCTIONAL EXPENSE ALLOCATION:

The following is an allocation of expenses by function:

| | June 30, | |
|----------------------------|----------------------|----------------------|
| | 2016 | 2015 |
| Program services | \$ 68,933,060 | \$ 64,173,601 |
| Supporting activities: | | |
| General and administrative | 22,239,375 | 19,991,786 |
| Fundraising | <u>1,531,437</u> | <u>1,663,433</u> |
| | <u>\$ 92,703,872</u> | <u>\$ 85,828,820</u> |

POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

Notes to Combined Financial Statements

June 30, 2016 and 2015

15. NET ASSETS:

Net assets consist of:

| | June 30, | |
|--|----------------|----------------|
| | 2016 | 2015 |
| Unrestricted: | | |
| Undesignated | \$ 29,015,800 | \$ 26,676,808 |
| Board designated endowment funds | 24,410,164 | 25,140,700 |
| Net investment in land, buildings, and equipment | 52,601,310 | 48,675,071 |
| | \$ 106,027,274 | \$ 100,492,579 |
| Temporarily restricted net assets are available for the following purposes: | | |
| Annuity/life income plans | \$ 1,472,608 | \$ 1,551,799 |
| Student aid | 8,639,763 | 7,839,530 |
| Construction | 67,636 | 67,636 |
| Research grants and other | 353,311 | 353,311 |
| | \$ 10,533,318 | \$ 9,812,276 |
| Permanently restricted net assets are available for the following purposes: | | |
| Endowed scholarship funds | \$ 22,953,139 | \$ 21,717,447 |
| Annuity scholarship funds (upon the death of the annuitants or beneficiaries) | 312,577 | 374,781 |
| | \$ 23,265,716 | \$ 22,092,228 |
| Net assets released from restrictions by purpose are: | | |
| Construction of long-lived assets | \$ - | \$ 5,709,839 |
| Student development | 442,209 | 407,721 |
| Scholarships and grants | 911,971 | 643,971 |
| Payments to annuitants | 192,366 | 165,854 |
| Institutional support | 505,955 | 167,360 |
| Academic support | 75,234 | 86,512 |
| Research | 176,565 | 177,461 |
| Other | 93,112 | 50,005 |
| Maturing annuity | - | 363,690 |
| Instruction | 40,676 | 45,359 |
| | \$ 2,438,088 | \$ 7,817,772 |

POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

Notes to Combined Financial Statements

June 30, 2016 and 2015

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 \$2,342,295 and \$2,292,338 for the years ended June 30, 2016 and 2015, 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, 2016 and 2015

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 are \$1,574,406 and \$1,088,347 for the years ending June 30, 2016 and 2015 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, 2016, 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, 2016 and 2015

17. ENDOWMENTS, continued:

Endowment Net Asset Composition by Type of Fund as of June 30, 2016:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|-------------------------------------|----------------|---------------------------|---------------------------|---------------|
| Donor restricted endowment funds | \$ (1,574,406) | \$ 4,267,596 | \$ 22,953,139 | \$ 25,646,329 |
| Board designated endowment funds | 25,984,570 | - | - | 25,984,570 |
| | \$ 24,410,164 | \$ 4,267,596 | \$ 22,953,139 | \$ 51,630,899 |

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 |

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, 2016 and 2015

17. ENDOWMENTS, continued:

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2016:

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|---|----------------------|-----------------------------------|-----------------------------------|----------------------|
| Endowment net assets, beginning of year | \$ 25,140,700 | \$ 5,103,015 | \$ 21,717,447 | \$ 51,961,162 |
| Investment return: | | | | |
| Investment income | (133,619) | 642,772 | - | 509,153 |
| Net losses (realized and unrealized) | (337,753) | (976,814) | - | (1,314,567) |
| Total investment return | (471,372) | (334,042) | - | (805,414) |
| Contributions | 4,720 | 19,195 | 1,151,692 | 1,175,607 |
| Appropriation of endowment assets for expenditure | - | (387,087) | 21,796 | (365,291) |
| Other changes: | | | | |
| Transfers to create board-designated endowment funds | 991,629 | (133,485) | - | 858,144 |
| Transfers to adjust endowments to actual Board-designated endowment expenditures | - | - | 62,204 | 62,204 |
| | (1,255,513) | - | - | (1,255,513) |
| | (259,164) | (501,377) | 1,235,692 | 475,151 |
| Endowment net assets, end of year | <u>\$ 24,410,164</u> | <u>\$ 4,267,596</u> | <u>\$ 22,953,139</u> | <u>\$ 51,630,899</u> |

POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

Notes to Combined Financial Statements

June 30, 2016 and 2015

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 gains (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 |

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, 2016 and 2015

18. FAIR VALUE MEASUREMENTS, continued:

Fair values of assets measured on a recurring basis at June 30, 2016, are as follows:

| | June 30, 2016 | 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 | \$ 489,308 | \$ 40,505 | \$ 448,803 | \$ - |
| Government bonds - foreign | 40,620 | - | 40,620 | - |
| Corporate bonds | 8,108,657 | 7,543,886 | 564,771 | - |
| Church bonds | 50,890 | - | - | 50,890 |
| Securitized | 1,140,097 | - | 1,140,097 | - |
| Municipals | 82,845 | - | 82,845 | - |
| Closed end | 18,053 | - | 18,053 | - |
| Other | 27,080 | - | 27,080 | - |
| Total fixed income | 9,957,550 | 7,584,391 | 2,322,269 | 50,890 |
| Common stocks: | | | | |
| Domestic | 479,472 | 92,514 | 386,958 | - |
| Foreign | 50,254 | - | 50,254 | - |
| Total common stocks | 529,726 | 92,514 | 437,212 | - |
| Mutual funds: | | | | |
| Equity Domestic | 18,737,307 | 18,652,393 | 84,914 | - |
| Equity Foreign | 2,649,239 | 2,649,239 | - | - |
| Fixed Income Domestic | 9,081,087 | 9,081,087 | - | - |
| Fixed Income Foreign | 56,576 | 56,576 | - | - |
| Hedge funds | 2,965,708 | - | - | 2,965,708 |
| Total mutual funds | 33,489,917 | 30,439,295 | 84,914 | 2,965,708 |
| | \$ 43,977,193 | \$ 38,116,200 | \$ 2,844,395 | \$ 3,016,598 |
| Interest rate swap | | | | |
| agreement liability | \$ 8,101,799 | \$ - | \$ 8,101,799 | \$ - |

POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

Notes to Combined Financial Statements

June 30, 2016 and 2015

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, 2016 and 2015

18. 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, | |
|--|---------------------|---------------------|
| | <u>2016</u> | <u>2015</u> |
| Beginning balance | \$ 3,125,386 | \$ 3,310,407 |
| Total gains (realized and unrealized) included in net investment income | - | 59,992 |
| Principal payments received | <u>(108,788)</u> | <u>(245,013)</u> |
| Ending balance | <u>\$ 3,016,598</u> | <u>\$ 3,125,386</u> |

POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

Notes to Combined Financial Statements

June 30, 2016 and 2015

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, 2016 is \$29,615 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, as of the date the use agreement was signed, were board members of the University and one individual who was an employee of the University. Lease payments for the years ended June 30, 2016 and 2015, were \$349,595 and \$341,537 respectively.

In November 2014, the University provided a 10-year, \$3,500,000 loan to DRC Partners. The note is captured on the statements 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. FINANCIAL INSTRUMENTS:

The following disclosure of estimated fair value of financial instruments is made in accordance with the Financial Instruments Topic of the Financial Accounting Standards Board's Accounting Standards Codification for organizations with assets greater than \$100 million. The estimated fair values of financial instruments, based on available market information and appropriate valuation methodologies, as of June 30, 2016 and 2015, are presented below:

| | June 30, 2016 | |
|---------------------------|--------------------|---------------|
| | Carrying Amount | Fair Value |
| Assets: | | |
| Cash and cash equivalents | \$ 32,142,063 | \$ 32,142,063 |
| Marketable securities | 18,863,520 | 18,863,520 |
| Student receivables, net | 3,557,508 | 3,557,508 |
| Accounts receivable | 388,523 | 388,523 |
| Notes receivable, net | 7,335,061 | 7,335,061 |
| Endowment investments | 35,048,325 | 35,048,325 |

POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

Notes to Combined Financial Statements

June 30, 2016 and 2015

21. FINANCIAL INSTRUMENTS, continued:

| | June 30, 2016 | |
|---|--------------------|---------------|
| | Carrying Amount | Fair Value |
| Liabilities: | | |
| Accounts payable | 3,238,140 | 3,238,140 |
| Construction payable | 412,924 | 412,924 |
| Accrued expenses and other liabilities | 4,509,090 | 4,509,090 |
| Charitable trusts and annuities payable | 1,496,009 | 1,496,009 |
| Fair value of swap agreement liability | 8,101,799 | 8,101,799 |
| Long-term debt | 48,103,155 | 48,103,155 |
| | | |
| | June 30, 2015 | |
| | Carrying Amount | Fair Value |
| Assets: | | |
| Cash and cash equivalents | \$ 25,208,425 | \$ 25,208,425 |
| Marketable securities | 19,058,262 | 19,058,262 |
| Student receivables, net | 2,616,683 | 2,616,683 |
| Accounts receivable | 457,041 | 457,041 |
| Notes receivable, net | 7,150,321 | 7,150,321 |
| Endowment investments | 34,587,370 | 34,587,370 |
| | | |
| | June 30, 2015 | |
| | Carrying Amount | Fair Value |
| 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 |
| Charitable trusts and annuities payable | 1,673,616 | 1,673,616 |
| Fair value of swap agreement liability | 8,101,799 | 8,101,799 |
| Long-term debt | 40,551,138 | 40,551,138 |

POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

Notes to Combined Financial Statements

June 30, 2016 and 2015

21. FINANCIAL INSTRUMENTS, continued:

The following methods and assumptions were used by the University in estimating the fair value of its financial instruments at June 30, 2016 and 2015:

Cash and cash equivalents, student receivables, accounts receivable, accounts payable, construction payable, and accrued expenses - The carrying value approximates fair value due to the short-term maturity of these instruments.

Marketable securities, and endowment investments - Marketable securities are recorded at fair value based on quoted market prices for similar instruments, except for investments where readily determinable market values do not exist, which are recorded at estimated fair value, determined by the University using methods and significant assumptions the University considers appropriate based on its understanding of the underlying characteristics of the investments.

Notes receivable - Notes receivable is reported at the present value of the associated cash flows which approximates fair value.

Charitable trusts and annuities payable - The fair value is based on the present value of future cash flows to annuitants using published mortality rates. See note 2.

Fair value of swap agreements - The fair value of swap agreements is the estimated amount that the University would pay to terminate the swap agreements at the reporting date, taking into account current interest rates and the current credit worthiness of the swap counter parties.

Long-term debt - Based on the borrowing rates currently available to the University for loans with similar terms and average maturities, the carrying value of the University's debt obligations approximates its fair value. The borrowing rates are based on variable rates, which reset periodically approximating fair value.

22. SUBSEQUENT EVENTS:

On July 21, 2016, the University entered into a lease for additional office and classroom space in a commercial office building adjacent to its existing Mission Valley (San Diego) graduate and adult student center. The term of the lease is 10 years, with an initial monthly rent of \$13,713, increasing 3% annually after the second year. The additional space will accommodate the University's growing graduate and adult programs.

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, 2016 and 2015, and our report thereon dated October 27, 2016, which expressed an unmodified opinion on those combined financial statements, appears on page 1. Our audits were conducted for the purpose of forming an opinion on the combined financial statements as a whole. The Supplemental Combining Statements of Financial Position and Supplemental Combining Statements of Activities are presented for purposes of additional analysis 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 27, 2016

POINT LOMA NAZARENE UNIVERSITY AND AFFILIATE

Supplemental Combining Statement of Financial Position

June 30, 2016

| | PLNU | Foundation | Total |
|---|----------------|---------------|----------------|
| ASSETS: | | | |
| Cash and cash equivalents | \$ 32,142,063 | \$ - | \$ 32,142,063 |
| Marketable securities | 13,778,564 | 5,084,956 | 18,863,520 |
| Student receivables, net | 3,554,139 | 3,369 | 3,557,508 |
| Accounts receivable | 388,523 | - | 388,523 |
| Notes receivable, net | 7,335,061 | - | 7,335,061 |
| Due to / from | (1,733,654) | 1,733,654 | - |
| Other assets | 2,231,085 | 59,798 | 2,290,883 |
| Equity participation notes receivable | 60,000 | 5,058,942 | 5,118,942 |
| Debt issuance costs, net of amortization | 370,348 | - | 370,348 |
| Investments in real estate | - | 8,712,888 | 8,712,888 |
| Endowment investments | - | 35,048,325 | 35,048,325 |
| Construction in progress | 2,132,737 | - | 2,132,737 |
| Property, plant, and equipment, net of depreciation | 98,606,804 | - | 98,606,804 |
| | \$ 158,865,670 | \$ 55,701,932 | \$ 214,567,602 |
| Total Assets | | | |
| LIABILITIES AND NET ASSETS: | | | |
| Liabilities: | | | |
| Accounts payable | \$ 3,238,140 | \$ - | \$ 3,238,140 |
| Construction payable | 412,924 | - | 412,924 |
| Accrued expenses and other liabilities | 4,372,728 | 136,362 | 4,509,090 |
| Amounts held for others | 1,515,453 | - | 1,515,453 |
| Deposits and deferred revenue | 4,421,518 | 1,600 | 4,423,118 |
| Charitable trusts and annuities payable | (1,468) | 1,497,477 | 1,496,009 |
| Fair value of swap agreement liability | 8,101,799 | - | 8,101,799 |
| Federal student loan obligations | 2,941,606 | - | 2,941,606 |
| Long-term debt | 48,095,655 | 7,500 | 48,103,155 |
| | 73,098,355 | 1,642,939 | 74,741,294 |
| Net assets: | | | |
| Unrestricted | 80,664,308 | 25,362,966 | 106,027,274 |
| Temporarily restricted | 5,054,337 | 5,478,981 | 10,533,318 |
| Permanently restricted | 48,670 | 23,217,046 | 23,265,716 |
| | 85,767,315 | 54,058,993 | 139,826,308 |
| | \$ 158,865,670 | \$ 55,701,932 | \$ 214,567,602 |
| Total Liabilities and Net Assets | | | |

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 |
| Total Assets | \$ 145,443,421 | \$ 56,933,375 | \$ 202,376,796 |
| 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 Activities

Year Ended June 30, 2016

| | PLNU | | | | Foundation | | | | Combined Total |
|---|----------------------|---------------------------|---------------------------|----------------------|----------------------|---------------------------|---------------------------|----------------------|-----------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total | Unrestricted | Temporarily Restricted | Permanently Restricted | Total | |
| REVENUE, SUPPORT, AND RECLASSIFICATIONS: | | | | | | | | | |
| Student tuition and fees | \$ 96,591,475 | \$ - | \$ - | \$ 96,591,475 | \$ - | \$ - | \$ - | \$ - | \$ 96,591,475 |
| Less student aid | (22,780,404) | - | - | (22,780,404) | (596,696) | - | - | (596,696) | (23,377,100) |
| | <u>73,811,071</u> | <u>-</u> | <u>-</u> | <u>73,811,071</u> | <u>(596,696)</u> | <u>-</u> | <u>-</u> | <u>(596,696)</u> | <u>73,214,375</u> |
| Auxiliary services | 18,457,714 | - | - | 18,457,714 | - | - | - | - | 18,457,714 |
| Private gifts and grants | 2,088,350 | 2,951,688 | - | 5,040,038 | 4,720 | 51,369 | 1,151,692 | 1,207,781 | 6,247,819 |
| Income on long-term investments | 696,102 | - | - | 696,102 | (363,460) | 672,758 | 21,796 | 331,094 | 1,027,196 |
| Other income | 3,189,402 | 536,423 | - | 3,725,825 | 109,063 | 705 | - | 109,768 | 3,835,593 |
| | <u>98,242,639</u> | <u>3,488,111</u> | <u>-</u> | <u>101,730,750</u> | <u>(846,373)</u> | <u>724,832</u> | <u>1,173,488</u> | <u>1,051,947</u> | <u>102,782,697</u> |
| Net assets released from restrictions | 1,853,208 | (1,853,208) | - | - | 584,880 | (584,880) | - | - | - |
| Total Revenue, Support, and Reclassifications | <u>100,095,847</u> | <u>1,634,903</u> | <u>-</u> | <u>101,730,750</u> | <u>(261,493)</u> | <u>139,952</u> | <u>1,173,488</u> | <u>1,051,947</u> | <u>102,782,697</u> |
| OPERATING EXPENSES: | | | | | | | | | |
| Instruction | 29,654,014 | - | - | 29,654,014 | - | - | - | - | 29,654,014 |
| Academic support | 7,063,353 | - | - | 7,063,353 | - | - | - | - | 7,063,353 |
| Student development | 18,332,398 | - | - | 18,332,398 | - | - | - | - | 18,332,398 |
| Institutional support | 19,215,258 | - | - | 19,215,258 | - | - | - | - | 19,215,258 |
| Operation and maintenance of plant | 7,549,242 | - | - | 7,549,242 | - | - | - | - | 7,549,242 |
| Auxiliary services | 9,561,905 | - | - | 9,561,905 | - | - | - | - | 9,561,905 |
| Other expenses | 174,038 | - | - | 174,038 | 754,791 | - | - | 754,791 | 928,829 |
| Organized research | 398,873 | - | - | 398,873 | - | - | - | - | 398,873 |
| Transfers | (290,000) | - | - | (290,000) | 290,000 | - | - | 290,000 | - |
| Total Expenses | <u>91,659,081</u> | <u>-</u> | <u>-</u> | <u>91,659,081</u> | <u>1,044,791</u> | <u>-</u> | <u>-</u> | <u>1,044,791</u> | <u>92,703,872</u> |
| Change in Net Assets from Operations | 8,436,766 | 1,634,903 | - | 10,071,669 | (1,306,284) | 139,952 | 1,173,488 | 7,156 | 10,078,825 |
| Other Changes in Non-Operating Activities: | | | | | | | | | |
| Net unrealized loss on investments | (93,911) | - | - | (93,911) | (600,070) | (1,851,795) | - | (2,451,865) | (2,545,776) |
| Net realized gain (loss) on investments | (1,468) | (17) | - | (1,485) | 275,828 | 797,999 | - | 1,073,827 | 1,072,342 |
| Trust and annuity actuarial gain | - | - | - | - | 159,158 | - | - | 159,158 | 159,158 |
| Present value adjustment to annuities payable | - | - | - | - | 21,526 | - | - | 21,526 | 21,526 |
| Adjustment to swap agreement liability | (1,356,850) | - | - | (1,356,850) | - | - | - | - | (1,356,850) |
| Change in Net Assets | 6,984,537 | 1,634,886 | - | 8,619,423 | (1,449,842) | (913,844) | 1,173,488 | (1,190,198) | 7,429,225 |
| Net Assets, Beginning 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> |
| Net Assets, End of Year | <u>\$ 80,664,308</u> | <u>\$ 5,054,337</u> | <u>\$ 48,670</u> | <u>\$ 85,767,315</u> | <u>\$ 25,362,966</u> | <u>\$ 5,478,981</u> | <u>\$ 23,217,046</u> | <u>\$ 54,058,993</u> | <u>\$ 139,826,308</u> |

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 | 27,320,166 | - | - | 27,320,166 | - | - | - | - | 27,320,166 |
| Academic support | 7,100,304 | - | - | 7,100,304 | - | - | - | - | 7,100,304 |
| Student development | 16,692,949 | - | - | 16,692,949 | - | - | - | - | 16,692,949 |
| Institutional support | 16,714,197 | - | - | 16,714,197 | - | - | - | - | 16,714,197 |
| Operation and maintenance of plant | 7,312,604 | - | - | 7,312,604 | - | - | - | - | 7,312,604 |
| Auxiliary services | 9,017,369 | - | - | 9,017,369 | - | - | - | - | 9,017,369 |
| 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 | 3,077,228 | 2,509,843 | (49,789) | 5,537,282 | 4,251,524 | (219,791) | 1,038,797 | 5,070,530 | 10,607,812 |
| 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 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> |