



**NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION**

Consolidated Financial Statements

For the Year Ended May 31, 2018

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## Independent Auditor's Report

**To the Board of Directors  
Northwest University and Northwest University Foundation  
Kirkland, Washington**

We have audited the accompanying consolidated financial statements of Northwest University and Northwest University Foundation (collectively, the University), which comprise the consolidated statement of financial position as of May 31, 2018, and the related consolidated statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 entity'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 financial statements.

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



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## **Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the University as of May 31, 2018, and its activities and changes in net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## **Report on Summarized Comparative Information**

We have previously audited the University's 2017 consolidated financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 18, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended May 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

## **Report on Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information on pages 30 to 33 is presented for purposes of additional analysis and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

## **OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS**

In accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States, we have also issued our report dated September 17, 2018, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

*Clark Nuber PS*  
Certified Public Accountants  
September 17, 2018

**NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION**  
**Consolidated Statement of Financial Position - Assets**  
**May 31, 2018**  
**(With Comparative Totals for May 31, 2017)**  
**(In Thousands)**

	<u>2018</u>	<u>2017</u>
<b>Assets</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 7,295	\$ 6,537
Cash and cash equivalents, government student loan program	44	108
Cash and cash equivalents, limited use		604
Prepaid expenses	332	302
Accounts receivable	212	435
Student accounts receivable, net (Note 3)	1,162	1,673
Notes receivable, current portion	<u>16</u>	<u>16</u>
<b>Total Current Assets</b>	<b>9,061</b>	<b>9,675</b>
Notes receivable, net of current portion	327	354
Government student loan program receivable	616	575
Asset held for sale	390	
Capitalized lease costs, net	20	26
Investments	17,259	15,919
Investments held in split interest agreements	4,054	4,237
Beneficial interest in assets held by other charities	15	15
Property and equipment, net	<u>44,865</u>	<u>46,032</u>
<b>Total Assets</b>	<b><u>\$ 76,607</u></b>	<b><u>\$ 76,833</u></b>

See accompanying notes.

**NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION**  
**Consolidated Statement of Financial Position - Liabilities and Net Assets**  
**May 31, 2018**  
**(With Comparative Totals for May 31, 2017)**  
**(In Thousands)**

	<u>2018</u>	<u>2017</u>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities:</b>		
Accounts payable and accrued expenses	\$ 3,527	\$ 3,733
Student deposits	674	612
Deferred revenue	2,177	2,079
Notes and bonds payable, current portion	<u>1,829</u>	<u>1,726</u>
<b>Total Current Liabilities</b>	<b>8,207</b>	<b>8,150</b>
Notes and bonds payable, net of current portion and unamortized bond fees	29,231	29,475
Interest rate swap agreements		2,392
Split interest agreement obligations	2,920	2,923
Government student loan program	504	532
Asset retirement obligations	<u>155</u>	<u>155</u>
<b>Total Liabilities</b>	<b>41,017</b>	<b>43,627</b>
<b>Net Assets:</b>		
Unrestricted	27,910	26,274
Temporarily restricted	2,951	2,485
Permanently restricted	<u>4,729</u>	<u>4,447</u>
<b>Total Net Assets</b>	<b><u>35,590</u></b>	<b><u>33,206</u></b>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 76,607</u></b>	<b><u>\$ 76,833</u></b>

See accompanying notes.

**NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION**  
**Consolidated Statement of Activities and Changes in Net Assets**  
**For the Year Ended May 31, 2018**  
**(With Comparative Totals for May 31, 2017)**  
**(In Thousands)**

	Unrestricted	Temporarily Restricted	Permanently Restricted	2018 Total	2017 Total
<b>Operating Revenue and Support:</b>					
Tuition and fees	\$ 40,878	\$ -	\$ -	\$ 40,878	\$ 39,388
Less student assistance	(12,899)			(12,899)	(11,927)
	27,979			27,979	27,461
Sales and services of auxiliary enterprises	6,278			6,278	5,977
Government grants	219			219	192
Private gifts and grants	1,713	530	326	2,569	2,125
Interest and dividends, net of investment fees	377	127		504	441
Other income	633			633	762
Net assets released from restrictions	390	(390)			
<b>Total Operating Revenue and Support</b>	<b>37,589</b>	<b>267</b>	<b>326</b>	<b>38,182</b>	<b>36,958</b>
<b>Operating Expenses:</b>					
Program services-					
Instructional	16,397			16,397	16,185
Auxiliary enterprises	3,860			3,860	3,493
Academic support	1,869			1,869	1,990
Student services	7,126			7,126	6,521
Total program services	29,252			29,252	28,189
Support services-					
Institutional support	6,644			6,644	6,893
Fundraising	749			749	740
<b>Total Operating Expenses</b>	<b>36,645</b>			<b>36,645</b>	<b>35,822</b>
<b>Change in Net Assets From Operations</b>	<b>944</b>	<b>267</b>	<b>326</b>	<b>1,537</b>	<b>1,136</b>
<b>Nonoperating Activities:</b>					
Gain on investments	665	271		936	1,207
Change in value of split interest agreements	8	(72)	(44)	(108)	40
Change in beneficial interests held by other charities					(25)
Change in value of interest rate swap agreements	19			19	1,044
<b>Change in Net Assets</b>	<b>1,636</b>	<b>466</b>	<b>282</b>	<b>2,384</b>	<b>3,402</b>
Net assets, beginning of year	26,274	2,485	4,447	33,206	29,804
<b>Net Assets, End of Year</b>	<b>\$ 27,910</b>	<b>\$ 2,951</b>	<b>\$ 4,729</b>	<b>\$ 35,590</b>	<b>\$ 33,206</b>

See accompanying notes.

**NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION**  
**Consolidated Statement of Cash Flows**  
**For the Year Ended May 31, 2018**  
**(With Comparative Totals for May 31, 2017)**  
**(In Thousands)**

	<u>2018</u>	<u>2017</u>
<b>Cash Flows From Operating Activities:</b>		
Change in net assets	\$ 2,384	\$ 3,402
Adjustments to reconcile change in net assets to net cash provided by operating activities-		
Noncash changes:		
Depreciation	2,400	2,350
Amortization of bond issuance costs	58	95
Net realized and unrealized gain on investments	(936)	(1,207)
Change in value of split interest agreements	108	(40)
Change in beneficial interest in assets held by other charities		25
Change in value of interest rate swap agreements	(19)	(1,044)
Accrued interest on notes payable	21	
Donated real property	(390)	
Net loss on disposal of land, property and equipment	61	
Change in operating assets and liabilities:		
Prepaid expenses	(30)	(111)
Accounts receivable	223	(280)
Student accounts receivable	511	115
Government student loan program receivable	(41)	15
Capitalized lease costs	6	6
Accounts payable and accrued expenses	(250)	146
Student deposits	62	144
Deferred revenue	98	(264)
<b>Net Cash Provided by Operating Activities</b>	<b>4,266</b>	<b>3,352</b>
<b>Cash Flows From Investing Activities:</b>		
Purchase of property and equipment	(1,250)	(1,714)
Purchase of investments	(6,217)	(3,732)
Proceeds from sales of investments	5,813	3,367
Proceeds from sales of split interest investments	314	217
Payments received on notes receivable	27	17
<b>Net Cash Used by Investing Activities</b>	<b>(1,313)</b>	<b>(1,845)</b>

See accompanying notes.



**NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION**  
**Consolidated Statement of Cash Flows (Continued)**  
**For the Year Ended May 31, 2018**  
**(With Comparative Totals for May 31, 2017)**  
**(In Thousands)**

	<u>2018</u>	<u>2017</u>
<b>Cash Flows From Financing Activities:</b>		
Payments of bonds and notes payable	(1,344)	(1,316)
Payments to retire Series 2012 bonds	(28,505)	
Payments to terminate interest rate swap agreements	(2,373)	
Proceeds from Series 2017 bonds	30,000	
Proceeds from issuance of notes payable	4	64
Bond issuance costs paid	(375)	(6)
Beneficial payments made for charitable remainder trusts and gift annuities	(242)	(267)
Decrease in government student loan program liability	(28)	(111)
	<u>(2,863)</u>	<u>(1,636)</u>
<b>Net Cash Used by Financing Activities</b>		
	<b>90</b>	<b>(129)</b>
<b>Net Change in Cash and Cash Equivalents</b>		
Cash and cash equivalents, beginning of year	7,249	7,378
	<u>\$ 7,339</u>	<u>\$ 7,249</u>
<b>Cash and Cash Equivalents, End of Year</b>		
<b>Supplementary Disclosure of Cash Flow Information:</b>		
Cash paid for interest	\$ 965	\$ 1,408
Noncash increase in fixed assets - additions in payables	\$ 44	\$ 22
<b>Reconciliation of Cash Balances:</b>		
Cash and cash equivalents	\$ 7,295	\$ 6,537
Cash and cash equivalents, government student loan program	44	108
Cash and cash equivalents, limited use		604
	<u>\$ 7,339</u>	<u>\$ 7,249</u>
<b>Total Cash and Cash Equivalents</b>		

See accompanying notes.

## NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

### Notes to Consolidated Financial Statements For the Year Ended May 31, 2018

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#### Note 1 - Nature of Operations

Northwest University was incorporated on July 18, 1952, under the laws of the State of Washington. Northwest University is a Christian co-educational institution, located on a 57-acre campus in Kirkland, Washington, under the control of the Alaska, Montana, Northwest, Oregon, Southern Idaho, Wyoming, Northern Pacific Latin American, Northern California/Nevada, Northwest Hispanic, and Hawaii districts of the Assemblies of God. The University is operated as a Christian university offering doctoral, masters, bachelors, and associate degrees as well as certificates in religious, ministerial, liberal arts, and professional studies. The University also offers courses at an extension site in Salem, Oregon.

Northwest University Foundation (the Foundation) was established on June 1, 1992, to secure, receive, and administer gifts of money, real estate, and tangible and intangible property on behalf of the University.

**Principles of Consolidation** - The consolidated financial statements include the accounts of Northwest University and Northwest University Foundation (collectively, the University). All significant inter-organization transactions have been eliminated.

#### Note 2 - Summary of Significant Accounting Policies

**Basis of Accounting** - The consolidated financial statements of the University have been prepared on the accrual basis of accounting.

**Basis of Presentation** - Net assets, revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the University and changes therein are classified and reported as follows:

Unrestricted Net Assets - Net assets on which there are no donor-imposed restrictions for use or such donor-imposed restrictions were temporary and expired or were met during the current or previous years.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed restrictions that will be met either by actions of the University, the passage of time, or representing the accumulated unappropriated earnings on endowment funds.

Permanently Restricted Net Assets - Net assets subject to donor-imposed restrictions to be maintained permanently by the University.

All contributions are considered available for unrestricted use unless specifically restricted by the donor or subject to legal restrictions. For contributions restricted by donors for property or other long-lived assets, the restriction is considered to be met when the property or other long-lived asset is placed into service.

#### Revenue Recognition -

Tuition and Fees - Tuition and fees are recognized as revenue when they are earned.

Sales and Services of Auxiliary Enterprises - Revenue is recognized when the sale occurs, or the service is provided.

Private Gifts and Grants - Private gifts and grants are recognized in the period received, including unconditional pledges when promised, at their fair value.

## NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

### Notes to Consolidated Financial Statements For the Year Ended May 31, 2018

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#### Note 2 - Continued

Government Grants - Revenue from government grants is recognized as revenue when the related expenses are incurred.

**Operating Activities** - The consolidated statement of activities and changes in net assets includes a measure of change in net assets from operating activities. Changes in net assets which are excluded from operating results include realized and unrealized gains and losses on investments, the actuarial gains and losses on trusts and annuities, and the unrealized gain or loss on interest rate swap agreements.

**Cash and Cash Equivalents** - Cash and cash equivalents consist of cash on hand and highly liquid short-term investments with original maturities of three months or less. At times, the University maintains amounts in banks that are in excess of federally insured limits.

**Limited Use Cash and Cash Equivalents** - The University had funds in an account as of May 31, 2017 with its primary bank consisting of monthly deposits that were required as a bond sinking fund to make principal payments on bonds payable as they became due each year on September 1. The required deposit each month was one-twelfth of the principal payment due the following September. The University refinanced the bonds during the year ending May 31, 2018, and the new debt agreements do not require a bond sinking fund.

**Accounts Receivable and Student Accounts Receivable** - The University extends credit to a substantial portion of its students and other revenue sources. Accounts receivable and student accounts receivable are recorded at their original amount. An allowance for doubtful accounts is maintained for estimated losses resulting from review of past due balances, historical write-off experience, and economic data. Certain receivables may be assigned to a third-party collection agency for collection. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The University has established credit policies, and historically the losses related to nonpayment have been low as a percentage of net program revenue.

**Contributions and Promises to Give** - Contributions received, including unconditional promises to give, are recognized as revenue when the donor's promise is received. Unconditional promises made and collected in the same reporting period are recorded as revenue when cash is received. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on these amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in private gifts. Conditional promises are recognized when donor stipulations are substantially met. Faith pledges, which include the words "as the Lord enables" or similar wording, are considered to be conditional promises and are recognized as revenue when cash is received. Contributions of noncash assets are recorded at their fair value. Contributions are reported as increases in the appropriate category of net assets. Contributions where the restrictions are met within the same fiscal year as the contribution are included in unrestricted net assets.

**Notes Receivable** - Notes receivable consist of notes for real estate that has been sold on contract. The University analyzes the collectability of these notes and determines the need for an allowance. Based on the University's analysis, no allowance was necessary for the notes receivable at May 31, 2018. During the year ended May 31, 2017, one note was written off. Notes receivable represent .5% of total assets, as of May 31, 2018 and 2017.

## NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

### Notes to Consolidated Financial Statements For the Year Ended May 31, 2018

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#### Note 2 - Continued

**Government Student Loan Program** - Government student loan program receivable consists primarily of loans made to students under the Federal Perkins Loan program. The loans are stated at net realizable value on the consolidated statement of financial position. Loan payments received and held in cash are reflected as cash and cash equivalents, government student loan program, on the consolidated statement of financial position. The majority of government student loan funds are provided by the U.S. government, and one-third of the loan funds is provided by the University. The portion of these loans that is refundable to the U.S. government is reflected as government student loan program liability on the consolidated statement of financial position.

**Asset Held for Sale** - The asset held for sale consists of property donated to the University located in Spanaway, Washington and is reported at fair value.

**Investments** - Investments consist of marketable debt and equity securities, interest in real estate investments and real estate. Investments in marketable securities are stated at fair value. Investments in real estate are stated at the lower of cost or net realizable value.

**Split Interest Agreements** - Under split interest agreements, donors enter into trust arrangements with the University in which the University receives benefits that are shared with other beneficiaries. Some are held by the University and others are held by third-party trustees.

For those agreements in which the University is the trustee, contribution revenue from charitable gift annuities and charitable remainder trusts is recognized at fair value on the date the agreement is established, net of the liability recorded for the present value of the estimated future payments due to beneficiaries. These liabilities were calculated using discount rates commensurate with the risks involved at the date of agreement, ranging from 5.0% to 9.0%, and over the estimated lives based on life expectancy tables provided by the Internal Revenue Service (IRS). Balances are adjusted during the terms of the agreements for changes in the value of the assets held, accretion of discounts, and changes in the life expectancies of the donors.

The University is also the beneficiary of multiple charitable remainder trusts and charitable gift annuities that are held by the Assemblies of God Financial Services (AGF) in Springfield, Missouri (Note 11). The fair values of the trusts are recognized as assets and contribution revenue at the dates the trusts are established based on the present value of the estimated future benefits to be received when the trust is distributed. No liability is recorded on the consolidated statement of financial position of the University because AGF is the liable party in these arrangements. Adjustments to the net amount to be received are recorded as changes in split interest agreements in the consolidated statement of activities and changes in net assets.

Restrictions associated with split interest agreements are based on the use specified by the donor. Changes in split interest agreements follow the restrictions on the underlying net assets.

**Estates and Trusts** - The University is named as beneficiary of various estates in probate. The University does not record amounts available for distribution until the point of asset distribution unless the ultimate amount available for distribution can be determined before the close of the probate proceedings. Trusts in which the University is named as the irrevocable beneficiary, but is not the trustee, are recorded when the University is notified by the trustee and the ownership percentage and valuation are determined.

## NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

### Notes to Consolidated Financial Statements For the Year Ended May 31, 2018

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#### Note 2 - Continued

**Property, Equipment and Depreciation** - Buildings and equipment are stated at cost, if purchased, or at fair value as of the date contributed. The University capitalizes land, buildings and equipment with a cost or, if donated, estimated fair value of at least \$2,000. Buildings and equipment are depreciated on the straight-line method over estimated economic lives ranging from 3 to 50 years.

**Student Deposits** - Student deposits are deposits received from students for housing, student sponsored events and groups, and student prepayments on student accounts receivable.

**Deferred Revenue** - Deferred revenue represents funds the University received in fiscal years 2018 and 2017 for services to be delivered during the following fiscal year. Also included is an amount related to music studio equipment from a local church received in exchange for the use of the studio once it was established and operating. This agreement allows the church to use the studio for 520 hours per year for 15 years without charge. The deferred revenue was recorded at \$298,000, which is the present value of the future use of the studio. The liability is reduced each year by the value of the amount of time the studio was used by the church. Deferred revenue remaining for this agreement totaled \$139,000 and \$159,000 as of May 31, 2018 and 2017, respectively.

**Split Interest Agreement Obligations** - Split interest agreement obligations represent the present value of the liability for the portion of assets held in charitable remainder trusts and charitable gift annuities for the benefit of other organizations.

**Asset Retirement Obligations** - Accounting principles generally accepted in the United States of America (U.S. GAAP) require an organization to recognize a liability for the fair value of a conditional asset retirement obligation if the liability can be reasonably estimated. For the University, these obligations are primarily for the disposal of asbestos and other materials found on campus. Though these materials do not currently pose a health hazard in any of the University facilities, appropriate remediation procedures may be required to remove the materials upon renovation or demolition. The University has recorded a liability for asset retirement obligations on the consolidated statement of financial position.

**Income Taxes** - The IRS has determined that the University and Foundation are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

**Functional Allocation of Expenses** - The costs of providing the University's various programs and activities have been summarized on a functional basis and are shown on the consolidated statement of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting activities benefited.

**Advertising** - The University uses advertising to recruit prospective students. Advertising costs are expensed as incurred. Advertising expense totaled \$439,000 and \$315,000 for the years ended May 31, 2018 and 2017, respectively.

**Use of Estimates** - The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Subsequent Events** - The University has evaluated subsequent events through September 17, 2018, the date on which the consolidated financial statements were issued.

**NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION**

**Notes to Consolidated Financial Statements  
For the Year Ended May 31, 2018**

**Note 3 - Student and Government Student Loan Program Receivable**

**Student Accounts Receivable** - Student accounts receivable are classified as either active or assigned. Active student accounts receivable are managed by the University. Assigned student accounts receivable have been turned over to a third-party collection agency, and some payments are being made on those accounts. Student accounts receivable consisted of the following at May 31:

	(In Thousands)	
	2018	2017
Student accounts receivable - active	\$ 1,733	\$ 2,639
Allowance for bad debts - active	(609)	(1,004)
<b>Student Accounts Receivable - Active, Net</b>	<b>1,124</b>	<b>1,635</b>
Student accounts receivable on third party payment plan	38	38
Student accounts receivable - assigned	640	241
Allowance for bad debts - assigned	(640)	(241)
<b>Student Accounts Receivable - Assigned, Net</b>	<b>—</b>	<b>—</b>
<b>Total Student Accounts Receivable, Net</b>	<b>\$ 1,162</b>	<b>\$ 1,673</b>

**Government Student Loan Program Receivable** - The University makes uncollateralized loans to students based on financial need. Student loans are funded through the Federal Perkins Loan program and institutional resources. There are no loans deemed by management to be impaired, and no modifications to loan terms have been executed by the University. An allowance for uncollectible student loans was not considered necessary as of May 31, 2018 and 2017.

**NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION**

**Notes to Consolidated Financial Statements  
For the Year Ended May 31, 2018**

**Note 3 - Continued**

Student loan program receivable consisted of the following at May 31:

	(In Thousands)		(In Thousands)	
	2018		2017	
	Perkins	Percent of Total Loan Portfolio	Perkins	Percent of Total Loan Portfolio
Good standing-				
Deferred, not in repayment	\$ 280	45.45%	\$ 222	38.61%
Repayment on schedule	133	21.59%	135	23.48%
	413	67.05%	357	62.09%
Past due-				
Not defaulted less than 240 days	31	5.03%	45	7.83%
Default greater than 240 but less than 2 years	38	6.17%	173	30.09%
Default greater than 2 years but less than 5 years	134	21.75%		
	203	32.95%	218	37.91%
<b>Total Government Student Loan Program Receivable</b>	<b>\$ 616</b>	<b>100.00%</b>	<b>\$ 575</b>	<b>100.00%</b>

**Note 4 - Investments**

University investments consisted of the following at May 31:

	(In Thousands)	
	2018	2017
Investments at fair value-		
Equity mutual funds	\$ 6,662	\$ 6,468
Common and preferred stocks	4,871	4,156
Bond mutual funds	173	171
Term loan certificates	1,173	1,155
Corporate bonds and notes	3,234	2,721
Government backed securities	789	587
Total investments at fair value	16,902	15,258
Investments at cost or net realizable value-		
Cash	357	626
Mineral rights		27
Alaska native stocks		8
Total investments at cost or net realizable value	357	661
<b>Total Investments</b>	<b>\$ 17,259</b>	<b>\$ 15,919</b>

**NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION**

**Notes to Consolidated Financial Statements  
For the Year Ended May 31, 2018**

**Note 4 - Continued**

During the year ended May 31, 2018, management determined that the fair value of the mineral rights and Alaska native stocks was impaired, as they are illiquid.

Investment return on University investments consisted of the following for the year ended May 31:

	(In Thousands)	
	<u>2018</u>	<u>2017</u>
Realized and unrealized gains on investments	\$ 936	\$ 1,207
Interest and dividends	554	489
Investment fees and expenses	<u>(50)</u>	<u>(48)</u>
<b>Investment Return</b>	<b><u>\$ 1,440</u></b>	<b><u>\$ 1,648</u></b>

Investments held in split interest agreements (Note 6) consisted of the following at May 31:

	(In Thousands)	
	<u>2018</u>	<u>2017</u>
Investments at fair value-		
Equity mutual funds	\$ 1,719	\$ 1,909
Bond mutual funds	1,590	1,296
Government bond funds	89	370
Common stocks	472	482
Real estate funds	<u>87</u>	<u>98</u>
Total investments at fair value	3,957	4,155
Investments at cost-		
Cash	89	74
Real estate	<u>8</u>	<u>8</u>
Total investments at cost	<u>97</u>	<u>82</u>
<b>Total Investments Held in Split Interest Agreements</b>	<b><u>\$ 4,054</u></b>	<b><u>\$ 4,237</u></b>



## NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

### Notes to Consolidated Financial Statements For the Year Ended May 31, 2018

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#### Note 5 - Fair Value Measurements

U.S. GAAP establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

The three levels of the fair value hierarchy are described as follows:

Level 1 - Unadjusted quoted prices available in active markets for identical assets or liabilities;

Level 2 - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; or

Level 3 - Unobservable inputs that are significant to the fair value measurement.

A financial instrument's level within the fair value hierarchy is based upon the highest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. The University's financial instruments were valued using a market approach.

The following is a description of the valuation methodologies used for assets measured at fair value on a recurring basis. There have been no changes in the methodologies used at May 31, 2018 and 2017.

Equity and Bond Mutual Funds - Valued at quoted market prices in active markets, which represent the net asset value of shares held by the University at year end.

Real Estate Funds - Valued at quoted market prices in active markets, which represent the net asset value of shares held by the University at year end.

Common and Preferred Stocks - Valued at the closing price reported on the active market on which the stocks are traded.

Term Loan Certificates - Valued using quoted prices in active markets for similar instruments.

Government Backed Securities - Valued at quoted prices based on similar assets in active markets.

Corporate Bonds and Notes - Valued at quoted prices based on similar assets in active markets.

Interest Rate Swap Agreements - Valued using market data from rating services and evaluated using proprietary pricing models.

Beneficial Interest in Assets Held by Other Charities - Valued based on the University's pro rata share of the underlying assets held by the fund, which is held and valued by AGF.

**NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION**

**Notes to Consolidated Financial Statements  
For the Year Ended May 31, 2018**

**Note 5 - Continued**

University investments recorded at fair value on a recurring basis are as follows at May 31, 2018:

	(In Thousands)			
	Level 1	Level 2	Level 3	Total
<b>University Investments:</b>				
Equity mutual funds-				
Large cap blend funds	\$ 1,700	\$ -	\$ -	\$ 1,700
Mid cap blend funds	3,167			3,167
Small cap blend funds	863			863
International funds	807			807
Commodity funds	125			125
Total equity mutual funds	6,662			6,662
Bond mutual funds	173			173
Total mutual funds	6,835			6,835
Common and preferred stocks	4,871			4,871
Corporate bonds and notes		3,234		3,234
Term loan certificates		1,173		1,173
Government backed securities		789		789
<b>Total Investments at Fair Value</b>	<b>\$ 11,706</b>	<b>\$ 5,196</b>	<b>\$ -</b>	<b>\$ 16,902</b>

**NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION**

**Notes to Consolidated Financial Statements  
For the Year Ended May 31, 2018**

**Note 5 - Continued**

University assets and liabilities recorded at fair value on a recurring basis are as follows at May 31, 2017:

	(In Thousands)			
	Level 1	Level 2	Level 3	Total
<b>University Investments:</b>				
Equity mutual funds-				
Large cap blend funds	\$ 1,624	\$ -	\$ -	\$ 1,624
Mid cap blend funds	3,173			3,173
Small cap blend funds	819			819
International funds	797			797
Commodity funds	55			55
Total equity mutual funds	6,468			6,468
Bond mutual funds	171			171
Total mutual funds	6,639			6,639
Common and preferred stocks	4,156			4,156
Corporate bonds and notes		2,721		2,721
Term loan certificates		1,155		1,155
Government backed securities		587		587
<b>Total Investments at Fair Value</b>	<b>\$ 10,795</b>	<b>\$ 4,463</b>	<b>\$ -</b>	<b>\$ 15,258</b>
<b>University Liabilities:</b>				
Interest rate swap agreements	\$ -	\$ -	\$ 2,392	\$ 2,392
<b>Total Liabilities at Fair Value</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,392</b>	<b>\$ 2,392</b>

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

Notes to Consolidated Financial Statements  
For the Year Ended May 31, 2018

**Note 5 - Continued**

Trust and annuity investment assets recorded at fair value on a recurring basis are as follows at May 31, 2018:

	(In Thousands)			
	Level 1	Level 2	Level 3	Total
<b>Investments Held in Charitable</b>				
<b>Remainder Trusts and Annuities:</b>				
Equity mutual funds-				
Large cap blend funds	\$ 670	\$ -	\$ -	\$ 670
Mid cap blend funds	100			100
Small cap blend funds	137			137
International funds	565			565
Commodity funds	181			181
Hedge equity funds	66			66
	<u>1,719</u>			<u>1,719</u>
Total equity mutual funds	1,719			1,719
Bond mutual funds	1,590			1,590
Government bond funds	89			89
	<u>3,398</u>			<u>3,398</u>
Total mutual funds	3,398			3,398
Common stocks	472			472
Real estate funds	87			87
	<u>569</u>			<u>569</u>
<b>Total Trust and Annuity</b>				
<b>Assets at Fair Value</b>	<b>3,957</b>			<b>3,957</b>
<b>Beneficial Interest in Assets</b>				
<b>Held by Other Charities</b>			<u>15</u>	<u>15</u>
<b>Total Trust and Annuity</b>				
<b>Assets at Fair Value</b>	<u>\$ 3,957</u>	<u>\$ -</u>	<u>\$ 15</u>	<u>\$ 3,972</u>

**NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION**

**Notes to Consolidated Financial Statements  
For the Year Ended May 31, 2018**

**Note 5 - Continued**

Trust and annuity investment assets recorded at fair value on a recurring basis are as follows at May 31, 2017:

	(In Thousands)			
	Level 1	Level 2	Level 3	Total
<b>Investments Held in Charitable</b>				
<b>Remainder Trusts and Annuities:</b>				
Equity mutual funds-				
Large cap blend funds	\$ 613	\$ -	\$ -	\$ 613
Mid cap blend funds	109			109
Small cap blend funds	137			137
International funds	681			681
Large cap value funds	25			25
Commodity funds	202			202
Hedge equity funds	142			142
Total equity mutual funds	1,909			1,909
Bond mutual funds	1,296			1,296
Government bond funds	370			370
Total mutual funds	3,575			3,575
Common stocks	482			482
Real estate funds	98			98
<b>Total Trust and Annuity Assets at Fair Value</b>	<b>4,155</b>			<b>4,155</b>
<b>Beneficial Interest in Assets Held by Other Charities</b>			<b>15</b>	<b>15</b>
<b>Total Trust and Annuity Assets at Fair Value</b>	<b>\$ 4,155</b>	<b>\$ -</b>	<b>\$ 15</b>	<b>\$ 4,170</b>

**NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION**

**Notes to Consolidated Financial Statements  
For the Year Ended May 31, 2018**

**Note 5 - Continued**

A reconciliation of the beginning and ending balances, by each major category of assets and liabilities, for fair value measurements made on a recurring basis using significant unobservable inputs (Level 3), is as follows for the years ended May 31:

	(In Thousands)			
	2018			2017
	Beneficial Interest in Assets Held By Other Charities	Interest Rate Swap Agreements	Total Level 3	Total Level 3
Beginning balance	\$ 15	\$ (2,392)	\$ (2,377)	\$ (3,302)
Retirement of swap agreements		2,373	2,373	
Realized losses				(119)
Unrealized gains		19	19	1,044
<b>Assets and Liabilities at Level 3, Net</b>	<b>\$ 15</b>	<b>\$ -</b>	<b>\$ 15</b>	<b>\$ (2,377)</b>

**Note 6 - Split Interest Agreements**

Split interest agreement net assets consisted of the following at May 31:

	(In Thousands)	
	2018	2017
Split interest agreement investments (Note 4)-		
Charitable remainder trusts	\$ 3,790	\$ 3,919
Charitable gift annuities	264	318
Total split interest agreement investments	4,054	4,237
Beneficial interests in agreements held by AGF	15	15
Liabilities due under split interest agreements-		
Charitable remainder trusts	(2,498)	(2,446)
Charitable trust funds held for others	(231)	(279)
Charitable gift annuities	(191)	(198)
Total liabilities due under split interest agreements	(2,920)	(2,923)
<b>Total Split Interest Agreement Net Assets</b>	<b>\$ 1,149</b>	<b>\$ 1,329</b>

**NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION**

**Notes to Consolidated Financial Statements  
For the Year Ended May 31, 2018**

**Note 6 - Continued**

The changes in split interest agreements were as follows for the years ended May 31:

	(In Thousands)				
	Trusts	Annuities	Other	2018 Total	2017 Total
Change in assets-					
Return on investments	\$ 86	\$ 22	\$ -	\$ 108	\$ 406
Transfers out		(50)		(50)	
Change in beneficial interests, net					(119)
Payments to trust beneficiaries or annuitants	(215)	(27)		(242)	(267)
Maturity of assets held	(92)			(92)	(20)
Change in liabilities-					
Change in actuarial liabilities, net	(219)	(19)		(238)	(250)
CRUT obligation maturity	92			92	48
Payments to trust beneficiaries or annuitants	215	27		242	267
<b>Net Change During the Year</b>	<b>(133)</b>	<b>(47)</b>		<b>(180)</b>	<b>65</b>
Total split interest net assets, beginning of year	1,194	120	15	1,329	1,264
<b>Total Split Interest Net Assets, End of Year</b>	<b>\$ 1,061</b>	<b>\$ 73</b>	<b>\$ 15</b>	<b>\$ 1,149</b>	<b>\$ 1,329</b>

The value of the annuity investments exceeds the reserve requirements of the Washington state insurance commissioner.

**Note 7 - Property and Equipment**

Property and equipment consisted of the following at May 31:

	(In Thousands)	
	2018	2017
Land	\$ 3,308	\$ 3,308
Buildings and improvements	58,523	58,109
Equipment	9,246	8,904
Construction in progress	717	837
	71,794	71,158
Less accumulated depreciation and amortization	(26,929)	(25,126)
<b>Property and Equipment, Net</b>	<b>\$ 44,865</b>	<b>\$ 46,032</b>

Depreciation expense totaled \$2,400,000 and \$2,350,000 for the years ended May 31, 2018 and 2017, respectively.

**NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION**

**Notes to Consolidated Financial Statements  
For the Year Ended May 31, 2018**

**Note 8 - Notes and Bonds Payable**

Notes and bonds payable consisted of the following at May 31:

	(In Thousands)	
	2018	2017
Unsecured notes payable to various churches, church associations, and church members of the Assemblies of God, interest rates from 1.13% to 3.25%, various maturities from 2018 to 2023 (Note 11).	\$ 2,173	\$ 2,474
Public Finance Authority Tax-Exempt Educational Facilities Refunding Bonds, Series 2017, issued through the State of Wisconsin. The interest rate is fixed at 2.48% per annum and is subject to adjustment in September 2027. Principal and interest is paid monthly with final maturity on September 1, 2037.	26,831	
Taxable loan issued by HomeStreet Bank. The interest rate is fixed at 3.96% per annum and is subject to adjustment in September 2027. Principal and interest is paid monthly with final maturity on September 1, 2037.	2,403	
Public Finance Authority Tax-Exempt Educational Facilities Refunding Bonds, Series 2012A issued through the State of Wisconsin. Variable interest is based on the 1-month LIBOR Index Rate, recalculated periodically. The rate in effect was 2.18% at May 31, 2017. The bonds were refinanced in August 2017.		27,150
Public finance authority Taxable Educational Facilities Refunding Bonds, Series 2012B, issued through the State of Wisconsin. Variable interest is based on the 1-month LIBOR Index Rate, recalculated periodically. The rate in effect was 3.27% at May 31, 2017. The bond was refinanced in August 2017.		1,355
Term loan for energy efficiency project, issued August 13, 2014, interest rate of 3.60%, matures on August 14, 2019. Payments of \$9,716 for principal and interest are due monthly. The term loan was paid in full during the year ended May 31, 2018.		251
<b>Total Notes and Bonds Payable</b>	<b>31,407</b>	<b>31,230</b>
Less portion due within one year	(1,829)	(1,726)
	29,578	29,504
Less unamortized bond issuance costs	(347)	(29)
<b>Notes and Bonds Payable, Net</b>	<b>\$ 29,231</b>	<b>\$ 29,475</b>



## NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

### Notes to Consolidated Financial Statements For the Year Ended May 31, 2018

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#### Note 8 - Continued

On August 1, 2012, the University received \$31,295,000 from the proceeds of the sale of Public Finance Authority Tax-Exempt Educational Facilities Revenue Refunding Bonds (Series 2012A Bonds) totaling \$27,150,000 and Public Finance Authority Taxable Educational Facilities Revenue Refunding Bonds (Series 2012B Bonds) totaling \$4,145,000. The bonds were issued through the State of Wisconsin. Payment of principal and interest on the bonds was secured by a first deed of trust on the University campus and related facilities. The bond documents contained restrictive covenants that, among other things, required the achievement of certain financial ratios. The University was in compliance with the bond covenants at May 31, 2017.

The variable rate bonds bore interest that was determined by a weekly auction. This interest rate was hedged with interest rate swap agreements at fixed rates of 2.91% and 4.91% at May 31, 2017 (Note 9). Required sinking fund payments were due monthly and are reported as limited use cash and cash equivalents on the consolidated statement of financial position.

The Public Finance Authority, existing under the laws of the State of Wisconsin, authorized the issuance of its tax-exempt Refunding Revenue Bond, Series 2017 (Series 2017 Bonds) in the amount of \$27,543,000 dated August 30, 2017. Under the terms of the Bond Purchase Agreement (the Agreement), dated August 1, 2017, between the Public Finance Authority, the University, and HomeStreet Bank (the original purchaser), proceeds from the Series 2017 Bonds were approved to redeem the Series 2012A Bonds plus allowed issuance expenses. In addition, the Agreement includes a taxable loan transaction in the amount of \$2,457,000. The taxable loan proceeds were used to pay the termination fees for the interest rate swap agreements (Note 9). Northwest University used cash reserves to retire the Series 2012B Bonds. The Series 2017 Bonds and the taxable loan are collateralized by the Commercial Security Agreement, Deed of Trust, and Assignment of Rents Agreement, all dated August 30, 2017.

The Series 2017 Bonds bear a tax-exempt fixed rate of interest of 2.48% per annum. The taxable bond bears a fixed rate of interest of 3.96% per annum. Both interest rates are subject to adjustment on September 1, 2027, the reset date. At the reset date for the taxable bond, the rate will be the greater of 3.96% or the 10-year LIBOR or equivalent index, in effect at that time, plus a 1.85% spread. At the reset date for the tax-exempt bond, the rate will be the greater of 2.48% or the taxable bond rate multiplied by the difference of 1.00 minus HomeStreet's then effective corporate tax rate.

The Agreement contains restrictive covenants that, among other things, require the achievement of certain financial ratios. The University was in compliance with the financial ratio requirements at May 31, 2018.

Principal maturities for notes and bonds payable are as follows:

For the Year Ending May 31,	(In Thousands)
2019	\$ 1,829
2020	1,437
2021	2,050
2022	1,611
2023	1,446
Thereafter	<u>23,034</u>
<b>Total Long-Term Debt</b>	<b><u>\$ 31,407</u></b>

## **NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION**

### **Notes to Consolidated Financial Statements For the Year Ended May 31, 2018**

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#### **Note 8 - Continued**

Management anticipates that many of the unsecured notes payable to various churches, church associations, and church members of the Assemblies of God will be renewed when they mature.

Interest expense, including bond fees on the above notes and bonds, totaled \$924,000 and \$1,418,000, for the years ended May 31, 2018 and 2017, respectively.

Bond issuance costs are amortized over the outstanding obligation period using the straight-line method and are reported net of the related accumulated amortization and debt on the consolidated statement of financial position. At the time of redemption, unamortized bond issuance costs related to the Series 2012A and Series 2012B Bonds totaled approximately \$29,000. Bond issuance costs related to the Series 2017 Bonds totaled approximately \$375,000 with an unamortized balance of \$347,000 at May 31, 2018.

#### **Note 9 - Interest Rate Swap Agreements**

Effective August 30, 2012, in conjunction with the issuance of the tax-exempt bonds (Note 8), the University renegotiated its existing interest rate swap agreement as a fair value hedge to reduce the impact of changes in the tax-exempt bonds. The swap was for a 10-year period, expiring September 1, 2022, and is based on a fixed rate of 2.91%. The original notional amount covered by the swap was \$27,150,000, and the amount outstanding at May 31, 2017, was \$26,735,000.

Effective August 30, 2012, in conjunction with the issuance of the taxable bonds (Note 8), the University maintained its existing interest rate swap agreement as a fair value hedge to reduce the impact of changes in the taxable bonds. The swap was for a six-year period, expiring September 1, 2018, and was based on a fixed rate of 4.91%. The original notional amount covered by the swap was \$5,320,000 and the amount outstanding at May 31, 2017 was \$1,355,000.

U.S. GAAP requires disclosure of this type of arrangement and the losses or gains associated with it in order to show its effectiveness. For the years ended May 31, 2018 and 2017, the University recognized unrealized gains of \$19,000 and \$1,044,000 respectively, on the value of the swap agreements, which are included in nonoperating activities on the consolidated statement of activities and changes in net assets. The valuation of the swap agreements is affected by fluctuations in the floating interest rate and the passage of time to the agreements' maturities. The fair value of the interest rate swaps is reported as a liability on the consolidated statement of financial position.

In addition to the unrealized gains, the University recognized realized losses of \$159,000 and \$740,000 for the difference between the fixed and floating rates during the years ending May 31, 2018 and 2017, respectively, which is included in operating expenses on the consolidated statement of activities and changes in net assets.

As part of the Series 2012A and Series 2012B bond redemption, both swaps were terminated (Note 8).

#### **Note 10 - Retirement Plan**

The University offers a Section 403(b) defined contribution plan to eligible employees. Employees may make contributions to the plan from their salaries up to the limits specified by the IRS. The University matches 100% of each employee's deferral contribution up to a maximum of 3% of the employee's salary. The University may also make an annual contribution of 2.5% of each eligible employee's compensation. All funds are fully vested as the contributions are made. Employer contributions to the plan totaled \$622,000 and \$536,000 for the years ended May 31, 2018 and 2017, respectively.

## NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

### Notes to Consolidated Financial Statements For the Year Ended May 31, 2018

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#### Note 11 - Related Party Transactions

Notes payable to various churches, church associations, and church members totaled \$2,173,000 and \$2,474,000 at May 31, 2018 and 2017, respectively. The University paid \$55,000 and \$55,000 in interest to these organizations and members.

AGF manages various cash and investments of the University totaling approximately \$7,719,000 and \$7,038,000 at May 31, 2018 and 2017, respectively.

AGF holds certain assets that are recorded on the consolidated statement of financial position as beneficial interest in assets held by other charities. These include charitable remainder unitrusts and charitable gift annuities. The value of these assets, net of related actuarial liability, totaled \$15,000 at both May 31, 2018 and 2017, respectively (Note 6).

#### Note 12 - Restricted Net Assets

Temporarily restricted net assets are generally available for scholarships to students or have time restrictions related to remainder trusts.

Restricted net assets consisted of the following at May 31:

	(In Thousands)	
	2018	2017
Temporarily restricted-		
Charitable remainder trusts, time restricted	\$ 758	\$ 829
Beneficial interests in agreements held by AGF	4	4
Accumulated earnings on endowments (Note 13)	1,069	784
Contributions restricted for other specific purposes	1,120	868
<b>Total Temporarily Restricted Net Assets</b>	<b>\$ 2,951</b>	<b>\$ 2,485</b>
Permanently restricted-		
Charitable remainder trusts	\$ 303	\$ 364
Beneficial interests in agreements held by AGF	11	11
Endowments (Note 13)	4,415	4,072
<b>Total Permanently Restricted Net Assets</b>	<b>\$ 4,729</b>	<b>\$ 4,447</b>

#### Note 13 - Endowment Funds

The University's endowment consists of 88 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the board to function as endowments. As required by U.S. GAAP, net assets associated with endowment funds, including funds designated by the board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

**NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION**

**Notes to Consolidated Financial Statements  
For the Year Ended May 31, 2018**

**Note 13 - Continued**

The board of directors of the University has reviewed the Washington State Prudent Management of Institutional Funds Act (PMIFA) and, having reviewed its rights and obligations thereunder, has determined that it is desirable to preserve, on a long-term basis, 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 determination, the University classifies as permanently restricted net assets the original value of gifts to the permanent endowment, the original value of subsequent gifts to the permanent endowment, and accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument. 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 University in a manner consistent with the standard of prudence prescribed by PMIFA.

In accordance with PMIFA, the University considers:

- The duration and preservation of the endowment fund;
- The purposes of the institution and the endowment fund;
- General economic conditions;
- The possible effect of inflation or deflation;
- The expected total return from income and the appreciation of investments;
- Other resources of the University; and
- The investment policy of the University.

Endowment net assets consisted of the following at May 31:

	(In Thousands)				
	Unrestricted	Temporarily Restricted	Permanently Restricted	2018 Total	2017 Total
Donor restricted endowment funds	\$ -	\$ 1,069	\$ 4,415	\$ 5,484	\$ 4,856
Board designated endowment funds	3,145			3,145	3,013
<b>Total Endowment Net Assets</b>	<b>\$ 3,145</b>	<b>\$ 1,069</b>	<b>\$ 4,415</b>	<b>\$ 8,629</b>	<b>\$ 7,869</b>

**NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION**

**Notes to Consolidated Financial Statements  
For the Year Ended May 31, 2018**

**Note 13 - Continued**

Changes in endowment net assets are as follows for the years ended May 31:

	(In Thousands)				
	Unrestricted	Temporarily Restricted	Permanently Restricted	2018 Total	2017 Total
Endowment net assets, beginning of year	\$ 3,050	\$ 784	\$ 4,072	\$ 7,906	\$ 7,327
Endowment investment return-					
Interest and dividends	96	127		223	111
Realized and unrealized gains		271		271	272
Total endowment investment return	96	398		494	383
Endowment contributions		1	326	327	201
Transfer from Assemblies of God trust			17	17	
Appropriation of endowment for expenditure	(1)	(114)		(115)	(42)
<b>Endowment Net Assets, End of Year</b>	<b>\$ 3,145</b>	<b>\$ 1,069</b>	<b>\$ 4,415</b>	<b>\$ 8,629</b>	<b>\$ 7,869</b>

**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 PMIFA requires the University to retain as a fund of perpetual duration. There were no deficiencies reported at May 31, 2018 and 2017.

**Return Objectives and Risk Parameters** - The University has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets included those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period as well as board-designated funds. Under this policy, as approved by the board, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk. The University expects its endowment funds, over time, to provide an average rate of return equal to or in excess of annual "payout" rates and preservation of capital and maintenance of corpus purchasing power. Actual returns in any given year may vary.

**Strategies Employed for Achieving Objectives** - To satisfy its long-term rate-of-return objectives, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The University targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

## NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

### Notes to Consolidated Financial Statements For the Year Ended May 31, 2018

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#### Note 13 - Continued

**Spending Policy and How the Investment Objectives Relate to the Spending Policy** - The University has a policy of appropriating for distribution each year 4.5 percent of its endowment fund's average fair value over the prior 36 months through the end of the current fiscal year. In establishing this policy, the University considered the long-term expected return on its endowment. Accordingly, over the long term, the University expects the current spending policy to allow its endowment to grow at an average of 4.5 percent annually. This is consistent with the University's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

#### Note 14 - Commitments and Contingencies

**Operating Leases** - Northwest University has several operating leases for copiers and printers. Leases will expire at the end of 2019 and 2020. Lease payments for copiers, printers, and office space were recorded as expense in the amounts of \$172,000 and \$173,000 for the years ended May 31, 2018 and 2017, respectively.

Future minimum lease payments for the year ending May 31,

For the Year Ending May 31,	<u>(In Thousands)</u>
2019	\$ 117
2020	<u>40</u>
<b>Total Lease Payments</b>	<b><u>\$ 157</u></b>

**University Services Agreement** - The University entered into a services agreement with a contractor to market online programs, recruit students, advise students during enrollment, registration and while taking courses, provide a learning management system, and assist with course development to support the University in providing on-line programs. The agreement commenced in May 2014 and was terminated as of May 31, 2017.

**Contingencies** - In the normal course of business, the University has various claims in process and other contingencies. In management's opinion, the outcome from these matters will not materially impact the University's financial position or results of activities.

The University manages loans and grants under certain federal programs that are subject to audit by the federal awarding agency. If, as a result of such audit, noncompliance with the loan or grant programs is identified, the University may be obligated for repayment of disallowed loans or grants.

#### Note 15 - Tenant Leases

The University has tenants who lease portions of one building that extend beyond one year. The leases commenced on May 1, 2016 and July 1, 2016. Rental revenue was \$173,000 and \$166,000 for the years ended May 31, 2018 and 2017, respectively.

**NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION**

**Notes to Consolidated Financial Statements  
For the Year Ended May 31, 2018**

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**Note 15 - Continued**

Future minimum rental receipts under all noncancelable operating leases are as follows:

For the Year Ending May 31,	<u>(In Thousands)</u>
2019	\$ 183
2020	146
2021	91
2022	<u>16</u>
<b>Future Minimum Rental Receipts</b>	<b><u><u>\$ 436</u></u></b>

**SUPPLEMENTARY INFORMATION**



**NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION**  
**Consolidating Schedule of Financial Position - Assets**  
**May 31, 2018**  
**(With Comparative Totals for May 31, 2017)**  
**(In Thousands)**

	<u>University</u>	<u>Foundation</u>	<u>2018 Consolidated Total</u>	<u>2017 Consolidated Total</u>
<b>Assets</b>				
<b>Current Assets:</b>				
Cash and cash equivalents	\$ 6,640	\$ 655	\$ 7,295	\$ 6,537
Cash and cash equivalents, government student loan program	44		44	108
Cash and cash equivalents, limited use				604
Prepaid expenses	332		332	302
Accounts receivable	212		212	435
Student accounts receivable, net (Note 3)	1,162		1,162	1,673
Notes receivable, current portion	8	8	16	16
<b>Total Current Assets</b>	<b>8,398</b>	<b>663</b>	<b>9,061</b>	<b>9,675</b>
Notes receivable, net of current portion	75	252	327	354
Government student loan program receivable	616		616	575
Asset held for sale		390	390	
Capitalized lease costs, net	20		20	26
Investments	6,869	10,390	17,259	15,919
Investments held in split interest agreements	264	3,790	4,054	4,237
Beneficial interest in assets held by other charities		15	15	15
Property and equipment, net	44,865		44,865	46,032
<b>Total Assets</b>	<b>\$ 61,107</b>	<b>\$ 15,500</b>	<b>\$ 76,607</b>	<b>\$ 76,833</b>

See independent auditor's report.

**NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION**  
**Consolidating Schedule of Financial Position - Liabilities and Net Assets**  
**May 31, 2017**  
**(With Comparative Totals for 2016)**  
**(In Thousands)**

	<u>University</u>	<u>Foundation</u>	<u>2018 Consolidated Total</u>	<u>2017 Consolidated Total</u>
<b>Liabilities and Net Assets</b>				
<b>Current Liabilities:</b>				
Accounts payable and accrued expenses	\$ 3,527	\$ -	\$ 3,527	\$ 3,733
Student deposits	674		674	612
Deferred revenue	2,177		2,177	2,079
Notes and bonds payable, current portion	<u>1,178</u>	<u>651</u>	<u>1,829</u>	<u>1,726</u>
<b>Total Current Liabilities</b>	<b>7,556</b>	<b>651</b>	<b>8,207</b>	<b>8,150</b>
Notes and bonds payable, net of current portion and unamortized bond fees	27,709	1,522	29,231	29,475
Interest rate swap agreements				2,392
Split interest agreement obligations	190	2,730	2,920	2,923
Government student loan program	504		504	532
Asset retirement obligations	<u>155</u>		<u>155</u>	<u>155</u>
<b>Total Liabilities</b>	<b>36,114</b>	<b>4,903</b>	<b>41,017</b>	<b>43,627</b>
<b>Net Assets:</b>				
Unrestricted	24,322	3,588	27,910	26,274
Temporarily restricted	671	2,280	2,951	2,485
Permanently restricted		<u>4,729</u>	<u>4,729</u>	<u>4,447</u>
<b>Total Net Assets</b>	<u>24,993</u>	<u>10,597</u>	<u>35,590</u>	<u>33,206</u>
<b>Total Liabilities and Net Assets</b>	<u><b>\$ 61,107</b></u>	<u><b>\$ 15,500</b></u>	<u><b>\$ 76,607</b></u>	<u><b>\$ 76,833</b></u>

See independent auditor's report.

**NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION**  
**Consolidating Schedule of Activities and Changes in Net Assets**  
**For the Year Ended May 31, 2018**  
**(With Comparative Totals for May 31, 2017)**  
**(In Thousands)**

	University			Foundation				2018 Consolidated Total	2017 Consolidated Total	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted			Total
<b>Operating Revenue and Support:</b>										
Tuition and fees	\$ 40,878	\$ -	\$ -	\$ 40,878	\$ -	\$ -	\$ -	\$ -	\$ 40,878	\$ 39,388
Less student assistance	(12,899)			(12,899)					(12,899)	(11,927)
	27,979			27,979					27,979	27,461
Sales and services of auxiliary enterprises	6,278			6,278					6,278	5,977
Government grants	219			219					219	192
Private gifts and grants	1,713	108		1,821		421	327	748	2,569	2,125
Interest and dividends	299			299	78	127		205	504	441
Other income	633			633					633	762
Support from Foundation to University	86			86	(86)			(86)		
Net assets released from restriction	216	(216)			174	(174)				
<b>Total Operating Revenue and Support</b>	<b>37,423</b>	<b>(108)</b>		<b>37,315</b>	<b>166</b>	<b>374</b>	<b>327</b>	<b>867</b>	<b>38,182</b>	<b>36,958</b>
<b>Operating Expenses:</b>										
Program services-										
Instructional	16,397			16,397					16,397	16,185
Auxiliary enterprises	3,860			3,860					3,860	3,493
Academic support	1,869			1,869					1,869	1,990
Student services	7,126			7,126					7,126	6,521
Support services-										
Institutional support	6,504			6,504	140			140	6,644	6,893
Fundraising	749			749					749	740
<b>Total Operating Expenses</b>	<b>36,505</b>			<b>36,505</b>	<b>140</b>			<b>140</b>	<b>36,645</b>	<b>35,822</b>
<b>Change in Net Assets From Operations</b>	<b>918</b>	<b>(108)</b>		<b>810</b>	<b>26</b>	<b>374</b>	<b>327</b>	<b>727</b>	<b>1,537</b>	<b>1,136</b>
<b>Nonoperating Activities:</b>										
Gain on investments	573			573	92	271		363	936	1,207
Change in value of split interest agreements	8			8		(71)	(45)	(116)	(108)	40
Change in beneficial interests held by other charities										(25)
Change in value of interest rate swap agreements	19			19					19	1,044
<b>Change in Net Assets</b>	<b>1,518</b>	<b>(108)</b>		<b>1,410</b>	<b>118</b>	<b>574</b>	<b>282</b>	<b>974</b>	<b>2,384</b>	<b>3,402</b>
Net assets, beginning of year	22,804	779		23,583	3,470	1,706	4,447	9,623	33,206	29,804
<b>Net Assets, End of Year</b>	<b>\$ 24,322</b>	<b>\$ 671</b>	<b>\$ -</b>	<b>\$ 24,993</b>	<b>\$ 3,588</b>	<b>\$ 2,280</b>	<b>\$ 4,729</b>	<b>\$ 10,597</b>	<b>\$ 35,590</b>	<b>\$ 33,206</b>

See independent auditor's report.

**NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION**  
**Consolidated Schedule of Operating Expenses**  
**For the Year Ended May 31, 2018**  
**(With Comparative Totals for May 31, 2017)**  
**(In Thousands)**

	<u>2018</u>	<u>2017</u>
<b>Operating Expenses:</b>		
Salaries expense	\$ 16,855	\$ 15,695
Payroll taxes	1,013	942
Benefits	<u>3,045</u>	<u>2,704</u>
Total salaries, taxes and benefits	20,913	19,341
Management services	2,977	2,784
Depreciation, amortization and loss on disposal	2,519	2,445
Professional services	1,307	1,863
Instructional expenses	1,293	1,517
Utilities	982	967
General and administrative	934	846
Interest and bond fees	924	1,418
Travel	748	704
Student events expense	728	670
Advertising and marketing	655	517
Maintenance	646	519
Dues, fees, subscriptions	631	603
Miscellaneous	309	255
Bank fees	199	176
Insurance	228	364
Supplies	156	163
Accounting and legal	104	100
Taxes	109	98
Conference events	83	75
Bad debt	73	283
Graduation expense	73	64
Fundraising events	<u>54</u>	<u>50</u>
<b>Total Operating Expenses</b>	<b><u>\$ 36,645</u></b>	<b><u>\$ 35,822</u></b>

See independent auditor's report.