



NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

Consolidated Financial Statements

For the Year Ended May 31, 2019

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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, 2019, and the related consolidated statements of activities and changes in net assets, functional expenses, 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, 2019, 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.

Effect of Adopting New Accounting Standard

As discussed in Note 2, the University adopted the Financial Accounting Standards Board's Accounting Standards update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities* as of and for the year ended May 31, 2019. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the University's 2018 consolidated financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 17, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended May 31, 2018, 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 33 to 35 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 16, 2019, 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 P.S.

Certified Public Accountants
September 16, 2019

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION
Consolidated Statement of Financial Position - Assets
May 31, 2019
(With Comparative Totals for May 31, 2018)
(In Thousands)

	<u>2019</u>	<u>2018</u>
Assets		
Current Assets:		
Cash and cash equivalents	\$ 8,127	\$ 7,295
Cash and cash equivalents, government student loan program	162	44
Prepaid expenses	497	332
Accounts receivable	362	212
Student accounts receivable, net (Note 3)	1,433	1,162
Pledge receivables, net (see Note 2)	87	
Notes receivable, current portion	<u>22</u>	<u>16</u>
Total Current Assets	10,690	9,061
Notes receivable, net of current portion	280	327
Government student loan program receivable, net (Note 3)	440	616
Asset held for sale	390	390
Capitalized lease costs, net	13	20
Investments	18,019	17,259
Investments held in split interest agreements	3,873	4,054
Beneficial interest in assets held by other charities	15	15
Property and equipment, net	<u>44,179</u>	<u>44,865</u>
Total Assets	<u>\$ 77,899</u>	<u>\$ 76,607</u>

See accompanying notes.

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION
Consolidated Statement of Financial Position - Liabilities and Net Assets
May 31, 2019
(With Comparative Totals for May 31, 2018)
(In Thousands)

	<u>2019</u>	<u>2018</u>
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 3,945	\$ 3,527
Student deposits	574	674
Deferred revenue	2,091	2,177
Notes and bonds payable, current portion	<u>1,873</u>	<u>1,829</u>
Total Current Liabilities	8,483	8,207
Notes and bonds payable, net of current portion and unamortized bond fees	28,178	29,231
Split interest agreement obligations	2,654	2,920
Government student loan program	500	504
Asset retirement obligations	<u>155</u>	<u>155</u>
Total Liabilities	39,970	41,017
Net Assets:		
Without donor restrictions	29,785	27,910
With donor restrictions	<u>8,144</u>	<u>7,680</u>
Total Net Assets	<u>37,929</u>	<u>35,590</u>
Total Liabilities and Net Assets	<u>\$ 77,899</u>	<u>\$ 76,607</u>

See accompanying notes.

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION
Consolidated Statement of Activities and Changes in Net Assets
For the Year Ended May 31, 2019
(With Comparative Totals for the Year Ended May 31, 2018)
(In Thousands)

	Without Donor Restrictions	With Donor Restrictions	2019 Total	2018 Total
Operating Revenue and Support:				
Tuition and fees	\$ 43,593	\$ -	\$ 43,593	\$ 40,878
Less student assistance	(14,441)		(14,441)	(12,899)
	29,152		29,152	27,979
Sales and services of auxiliary enterprises	6,820		6,820	6,278
Government grants	245		245	219
Private gifts and grants	1,818	804	2,622	2,569
Operating return on investments, net	527	192	719	504
Other income	701		701	633
Net assets released from restrictions	391	(391)		
Total Operating Revenue and Support	39,654	605	40,259	38,182
Operating Expenses:				
Program Services	29,353		29,353	29,252
Institutional Support	7,139		7,139	6,644
Fundraising	865		865	749
Total Operating Expenses	37,357		37,357	36,645
Change in Net Assets From Operations	2,297	605	2,902	1,537
Nonoperating Activities:				
Nonoperating return on investments, net	(428)	(224)	(652)	936
Change in value of split interest agreements	6	83	89	(108)
Change in value of interest rate swap agreements				19
Change in Net Assets	1,875	464	2,339	2,384
Net assets, beginning of year	27,910	7,680	35,590	33,206
Net Assets, End of Year	\$ 29,785	\$ 8,144	\$ 37,929	\$ 35,590

See accompanying notes.

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION
Consolidated Statement of Functional Expenses
For the Year Ended May 31, 2019
(With Comparative Totals for the Year Ended May 31, 2018)
(In Thousands)

	Program Services	Support Services			2019 Total	2018 Total
		Institutional Support	Fundraising	Total		
Operating Expenses:						
Salaries expense	\$ 15,184	\$ 1,728	\$ 435	\$ 2,163	\$ 17,347	\$ 16,855
Payroll taxes	916	111	27	138	1,054	1,013
Benefits	2,701	539	65	604	3,305	3,045
Total salaries, taxes and benefits	18,801	2,378	527	2,905	21,706	20,913
Management services	3,049	208	44	252	3,301	2,977
Depreciation and amortization	40	2,482	1	2,483	2,523	2,520
Miscellaneous	1,651	530	95	625	2,276	2,317
Instructional expenses	1,614				1,614	1,847
Travel	1,200	23	37	60	1,260	1,278
Interest, bond costs, and bank fees	721	268	23	291	1,012	1,127
Utilities	915	37	18	55	970	982
Professional services	715	175	29	204	919	1,307
Maintenance	575	32	15	47	622	514
General and administrative		351		351	351	368
Advertising and marketing	36	399		399	435	211
Insurance	36	256	1	257	293	228
Fundraising events			75	75	75	56
Total Operating Expenses	\$ 29,353	\$ 7,139	\$ 865	\$ 8,004	\$ 37,357	\$ 36,645

See accompanying notes.

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION
Consolidated Statement of Cash Flows
For the Year Ended May 31, 2019
(With Comparative Totals for May 31, 2018)
(In Thousands)

	<u>2019</u>	<u>2018</u>
Cash Flows From Operating Activities:		
Change in net assets	\$ 2,339	\$ 2,384
Adjustments to reconcile change in net assets to net cash provided by operating activities-		
Noncash changes:		
Depreciation	2,479	2,400
Amortization of bond issuance costs	37	58
Realized and unrealized loss (gain) on investments	628	(936)
Change in value of split interest agreements	(89)	108
Change in value of interest rate swap agreements		(19)
Accrued interest on notes payable	22	21
Donated real property		(390)
Net (gain) loss on disposal of land, property and equipment	(91)	61
Change in operating assets and liabilities:		
Prepaid expenses	(165)	(30)
Accounts receivable	(150)	223
Pledge receivable, net	(87)	
Student accounts receivable	(271)	511
Government student loan program receivable	176	(41)
Capitalized lease costs	7	6
Accounts payable and accrued expenses	420	(250)
Student deposits	(100)	62
Deferred revenue	(86)	98
Net Cash Provided by Operating Activities	5,069	4,266
Cash Flows From Investing Activities:		
Purchase of property and equipment	(2,044)	(1,250)
Purchase of investments	(3,968)	(6,217)
Proceeds from sale of property	340	
Proceeds from sales of investments	2,580	5,813
Proceeds from sales of split interest investments	243	314
Payments received on notes receivable	41	27
Net Cash Used by Investing Activities	(2,808)	(1,313)

See accompanying notes.

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION
Consolidated Statement of Cash Flows (Continued)
For the Year Ended May 31, 2019
(With Comparative Totals for May 31, 2018)
(In Thousands)

	<u>2019</u>	<u>2018</u>
Cash Flows From Financing Activities:		
Payments of bonds and notes payable	\$ (1,230)	\$ (1,344)
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	162	4
Bond issuance costs paid		(375)
Beneficial payments made for charitable remainder trusts and gift annuities	(239)	(242)
Decrease in government student loan program liability	(4)	(28)
	<u>(1,311)</u>	<u>(2,863)</u>
Net Cash Used by Financing Activities		
	950	90
Net Change in Cash and Cash Equivalents		
Cash and cash equivalents, beginning of year	7,339	7,249
	<u>\$ 8,289</u>	<u>\$ 7,339</u>
Cash and Cash Equivalents, End of Year		
Supplementary Disclosure of Cash Flow Information:		
Cash paid for interest	\$ 816	\$ 965
Noncash increase in fixed assets - additions in payables	42	44
Reconciliation of Cash Balances:		
Cash and cash equivalents	8,127	7,295
Cash and cash equivalents, government student loan program	162	44
	<u>\$ 8,289</u>	<u>\$ 7,339</u>
Total Cash and Cash Equivalents		

See accompanying notes.

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

Notes to Consolidated Financial Statements For the Year Ended May 31, 2019 (With Comparative Totals for the Year Ended May 31, 2018)

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:

Net Assets Without Donor Restrictions - 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.

Net Assets With Donor Restrictions - Net assets restricted by donors to be used for certain purposes or for future periods, including donor-restricted endowments whose corpus is intended to be held in perpetuity.

All contributions are considered available for use without donor restrictions 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.

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

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

Notes to Consolidated Financial Statements For the Year Ended May 31, 2019 (With Comparative Totals for the Year Ended May 31, 2018)

Note 2 - Continued

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.

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 received 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 gift support. An allowance for doubtful accounts is maintained for estimated losses resulting from a review of pledges receivable and probability of collection based on donor information. As of May 31, 2019, pledges receivable, net of an allowance for doubtful accounts of \$4,000 will be paid within one year. There were no pledges receivable outstanding as of May 31, 2018.

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 net assets without donor restrictions.

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, 2019 and 2018. Notes receivable represent .4% and .5% of total assets as of May 31, 2019 and 2018, respectively.

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

Notes to Consolidated Financial Statements For the Year Ended May 31, 2019 (With Comparative Totals for the Year Ended May 31, 2018)

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. The Federal Perkins Loan program ended on September 30, 2017 and final disbursements were permitted through June 30, 2018.

Asset Held for Sale - The asset held for sale consists of property donated to the University located in Spanaway, Washington and is reported at the lower of carrying value or 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 10). 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, 2019 (With Comparative Totals for the Year Ended May 31, 2018)

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 2019 and 2018 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 \$119,000 and \$139,000 as of May 31, 2019 and 2018, 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. Accordingly, certain costs have been allocated among the programs and supporting activities benefited. Academic department and fundraising expenses are allocated in full to the program and fundraising functional categories, respectively. Maintenance expenses are allocated based on the approximate square footage of space occupied by various departments. All other expenses are allocated by function based on resources consumed by the various departments.

Advertising - The University uses advertising to recruit prospective students. Advertising costs are expensed as incurred. Advertising expense totaled \$546,000 and \$439,000 for the years ended May 31, 2019 and 2018, 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.

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

**Notes to Consolidated Financial Statements
For the Year Ended May 31, 2019
(With Comparative Totals for the Year Ended May 31, 2018)**

Note 2 - Continued

Summarized Comparative Information - For comparative purposes, the consolidated financial statements include certain prior-year summarized information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the University's consolidated financial statements for the year ended May 31, 2018, from which the summarized information was derived.

New Accounting Pronouncement - During the year ended May 31, 2019, the University adopted the requirements of the Financial Accounting Standards Board's Accounting Standards Update (ASU) No. 2016-14 - *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return between not-for-profit entities. A key change required by ASU 2016-14 is the net asset classes uses in these financial statements. Amounts previously reported as temporarily restricted net assets and permanently restricted net assets are now reported as net assets with donor restrictions. A footnote on liquidity and availability of financial assets has also been added (Note 16).

Financial Statement Reclassifications - Certain reclassifications have been made to prior year accounts to conform to the presentation in the current year consolidated financial statements. The reclassifications have no effect on the previously reported consolidated change in net assets or consolidated net asset balances.

Subsequent Events - The University has evaluated subsequent events through September 16, 2019, the date on which the consolidated financial statements were issued.

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)	
	2019	2018
Student accounts receivable - active	\$ 1,877	\$ 1,733
Allowance for bad debts - active	(481)	(609)
Student Accounts Receivable - Active, Net	1,396	1,124
Student accounts receivable on third party payment plan	37	38
Student accounts receivable - assigned	689	640
Allowance for bad debts - assigned	(689)	(640)
Student Accounts Receivable - Assigned, Net		
Total Student Accounts Receivable, Net	\$ 1,433	\$ 1,162

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

**Notes to Consolidated Financial Statements
For the Year Ended May 31, 2019
(With Comparative Totals for the Year Ended May 31, 2018)**

Note 3 - Continued

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 (Note 2). The University has recorded an allowance for uncollectible student loans of \$59,000 as of May 31, 2019, as the Federal Perkins Loan program has ended. An allowance for uncollectible student loans was not considered necessary as of May 31, 2018. No loans are deemed by management to be impaired.

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

	(In Thousands)		(In Thousands)	
	2019		2018	
	Perkins	Percent of Total Loan Portfolio	Perkins	Percent of Total Loan Portfolio
Good standing-				
Deferred, not in repayment	\$ 235	47.09%	\$ 280	45.45%
Repayment on schedule	84	16.83%	133	21.59%
	319	63.93%	413	67.05%
Past due-				
Not defaulted less than 240 days	31	6.21%	31	5.03%
Default greater than 240 days but less than 2 years	14	2.81%	38	6.17%
Default greater than 2 years but less than 5 years	135	27.05%	134	21.75%
	180	36.07%	203	32.95%
Total Government Student Loan Program Receivable	499	100.00%	616	100.00%
Allowance for uncollectible loans	(59)			
Total Government Student Loan Program Receivable, Net	\$ 440		\$ 616	

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

**Notes to Consolidated Financial Statements
For the Year Ended May 31, 2019
(With Comparative Totals for the Year Ended May 31, 2018)**

Note 4 - Investments

University investments consisted of the following at May 31:

	(In Thousands)	
	2019	2018
Investments at fair value-		
Equity mutual funds	\$ 6,698	\$ 6,662
Common and preferred stocks	4,950	4,871
Bond mutual funds	264	173
Term loan certificates	1,197	1,173
Corporate bonds and notes	3,609	3,234
Government backed securities	1,066	789
Total investments at fair value	17,784	16,902
Investments at cost or net realizable value-		
Cash	235	357
Total Investments	\$ 18,019	\$ 17,259

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

	(In Thousands)	
	2019	2018
Investments at fair value-		
Equity mutual funds	\$ 1,599	\$ 1,719
Bond mutual funds	1,618	1,590
Government bond funds		89
Common stocks	452	472
Real estate funds	110	87
Total investments at fair value	3,779	3,957
Investments at cost-		
Cash	86	89
Real estate	8	8
Total investments at cost	94	97
Total Investments Held in Split Interest Agreements	\$ 3,873	\$ 4,054

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

Notes to Consolidated Financial Statements For the Year Ended May 31, 2019 (With Comparative Totals for the Year Ended May 31, 2018)

Note 4 - Continued

Dividends and interest are reported on the statement of activities as operating activities and market gains and losses are reported as nonoperating activities. Return on investments, net of expenses was as follows as of May 31:

	(In Thousands)	
	2019	2018
Operating return on investments, net	\$ 719	\$ 504
Nonoperating return on investments, net	(652)	936
Total Return on Investments, Net	\$ 67	\$ 1,440

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, 2019 and 2018.

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.

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

**Notes to Consolidated Financial Statements
For the Year Ended May 31, 2019
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Note 5 - Continued

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.

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.

University investments recorded at fair value on a recurring basis are as follows at May 31, 2019:

	(In Thousands)		
	Level 1	Level 2	Total
University Investments:			
Equity mutual funds-			
Large cap blend funds	\$ 1,881	\$ -	\$ 1,881
Mid cap blend funds	2,913		2,913
Small cap blend funds	882		882
International funds	917		917
Commodity funds	105		105
Total equity mutual funds	6,698		6,698
Bond mutual funds	264		264
Total mutual funds	6,962		6,962
Common and preferred stocks	4,950		4,950
Corporate bonds and notes		3,609	3,609
Term loan certificates		1,197	1,197
Government backed securities		1,066	1,066
Total Investments at Fair Value	\$ 11,912	\$ 5,872	\$ 17,784

There were no University Investments classified as Level 3 at May 31, 2019.

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

**Notes to Consolidated Financial Statements
For the Year Ended May 31, 2019
(With Comparative Totals 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	Total
University Investments:			
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
Total Investments at Fair Value	\$ 11,706	\$ 5,196	\$ 16,902

There were no University Investments classified as Level 3 at May 31, 2018.

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

**Notes to Consolidated Financial Statements
For the Year Ended May 31, 2019
(With Comparative Totals 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, 2019:

	(In Thousands)		
	Level 1	Level 3	Total
Investments Held in Charitable Remainder Trusts and Annuities:			
Equity mutual funds-			
Large cap blend funds	\$ 804	\$ -	\$ 804
Mid cap blend funds	100		100
Small cap blend funds	125		125
International funds	481		481
Commodity funds	89		89
	<u>1,599</u>		<u>1,599</u>
Total equity mutual funds	1,599		1,599
Bond mutual funds	<u>1,618</u>		<u>1,618</u>
Total mutual funds	3,217		3,217
Common stocks	452		452
Real estate funds	<u>110</u>		<u>110</u>
Total Trust and Annuity Assets at Fair Value	3,779		3,779
Beneficial Interest in Assets Held by Other Charities		<u>15</u>	<u>15</u>
Total Trust and Annuity Assets at Fair Value	\$ 3,779	\$ 15	\$ 3,794

There were no trust and annuity investments classified as Level 2 at May 31, 2019.

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

**Notes to Consolidated Financial Statements
For the Year Ended May 31, 2019
(With Comparative Totals 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 3	Total
Investments Held in Charitable Remainder Trusts and Annuities:			
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
Total equity mutual funds	1,719		1,719
Bond mutual funds	1,590		1,590
Government bond funds	89		89
Total mutual funds	3,398		3,398
Common stocks	472		472
Real estate funds	87		87
Total Trust and Annuity Assets at Fair Value	3,957		3,957
Beneficial Interest in Assets Held by Other Charities		15	15
Total Trust and Annuity Assets at Fair Value	\$ 3,957	\$ 15	\$ 3,972

There were no trust and annuity investments classified as Level 2 at May 31, 2018.

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

**Notes to Consolidated Financial Statements
For the Year Ended May 31, 2019
(With Comparative Totals for the Year Ended May 31, 2018)**

Note 5 - Continued

A reconciliation of the beginning and ending balances, by each major category of assets 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)		
	2019	2018	
Beneficial Interest in Assets Held By Other Charities	<u> </u>	<u> </u>	<u> </u>
Beginning balance	\$ 15	\$ 15	\$ (2,377)
Retirement of swap agreements			2,373
Gain on interest rate swap			19
Assets and Liabilities at Level 3, Net	<u>\$ 15</u>	<u>\$ 15</u>	<u>\$ 15</u>

Note 6 - Split Interest Agreements

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

	(In Thousands)	
	2019	2018
Split interest agreement investments (Note 4)- Charitable remainder trusts	\$ 3,635	\$ 3,790
Charitable gift annuities	238	264
Total split interest agreement investments	3,873	4,054
Beneficial interests in agreements held by AGF	15	15
Liabilities due under split interest agreements- Charitable remainder trusts	(2,220)	(2,498)
Charitable trust funds held for others	(270)	(231)
Charitable gift annuities	(164)	(191)
Total liabilities due under split interest agreements	(2,654)	(2,920)
Total Split Interest Agreement Net Assets	<u>\$ 1,234</u>	<u>\$ 1,149</u>

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

**Notes to Consolidated Financial Statements
For the Year Ended May 31, 2019
(With Comparative Totals 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	2019 Total	2018 Total
Change in assets-					
Return on investments	\$ 83	\$ 6	\$ -	\$ 89	\$ 108
Transfers out					(50)
Payments to trust beneficiaries or annuitants	(214)	(25)		(239)	(242)
Maturity of assets held					(92)
Change in liabilities-					
Change in actuarial liabilities, net CRUT obligation maturity		(4)		(4)	(238)
Payments to trust beneficiaries or annuitants	214	25		239	242
Net Change During the Year	83	2		85	(180)
Total split interest net assets, beginning of year	1,061	73	15	1,149	1,329
Total Split Interest Net Assets, End of Year	\$ 1,144	\$ 75	\$ 15	\$ 1,234	\$ 1,149

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)	
	2019	2018
Land	\$ 3,308	\$ 3,308
Buildings and improvements	58,778	58,523
Equipment	9,947	9,246
Construction in progress	1,107	717
	73,140	71,794
Less accumulated depreciation and amortization	(28,961)	(26,929)
Property and Equipment, Net	\$ 44,179	\$ 44,865

Depreciation expense totaled \$2,479,000 and \$2,400,000 for the years ended May 31, 2019 and 2018, respectively.

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

**Notes to Consolidated Financial Statements
For the Year Ended May 31, 2019
(With Comparative Totals 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)	
	<u>2019</u>	<u>2018</u>
Unsecured notes payable to various churches, church associations, and church members of the Assemblies of God, interest rates from 1.50% to 3.50%, various maturities from 2019 to 2024 (Note 10).	\$ 2,303	\$ 2,173
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.	25,739	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.	<u>2,319</u>	<u>2,403</u>
Total Notes and Bonds Payable	30,361	31,407
Less portion due within one year	<u>(1,873)</u>	<u>(1,829)</u>
	28,488	29,578
Less unamortized bond issuance costs	<u>(310)</u>	<u>(347)</u>
Notes and Bonds Payable, Net	<u>\$ 28,178</u>	<u>\$ 29,231</u>

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. The Agreement with HomeStreet Bank includes a taxable loan transaction in the amount of \$2,457,000.

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, 2019.

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

**Notes to Consolidated Financial Statements
For the Year Ended May 31, 2019
(With Comparative Totals for the Year Ended May 31, 2018)**

Note 8 - Continued

The following debt was redeemed on August 31, 2017, with the proceeds of the bonds described above:

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 bonds had a variable interest rate that was hedged with fixed rate interest rate swap agreements. The bond documents contained restrictive covenants that, among other things, required the achievement of certain financial ratios.

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.

Principal maturities for notes and bonds payable are as follows:

For the Year Ending May 31,	<u>(In Thousands)</u>
2020	\$ 1,873
2021	2,147
2022	1,624
2023	1,449
2024	1,585
Thereafter	<u>21,683</u>
Total Long-Term Debt	<u><u>\$ 30,361</u></u>

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 \$817,000 and \$924,000, for the years ended May 31, 2019 and 2018, 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. Bond issuance costs related to the Series 2017 Bonds totaled approximately \$375,000 with an unamortized balance of \$310,000 and \$347,000 as of May 31, 2019 and 2018, respectively.

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

Notes to Consolidated Financial Statements For the Year Ended May 31, 2019 (With Comparative Totals for the Year Ended May 31, 2018)

Note 9 - 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 3.0% 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 \$688,000 and \$622,000 for the years ended May 31, 2019 and 2018, respectively.

Note 10 - Related Party Transactions

Notes payable to various churches, church associations, and church members totaled \$2,303,000 and \$2,173,000 at May 31, 2019 and 2018, respectively. The University paid \$56,000 and \$55,000 in interest to these organizations and members.

AGF manages various cash and investments of the University totaling approximately \$2,201,000 and \$7,719,000 at May 31, 2019 and 2018, 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, 2019 and 2018, respectively (Note 6).

During the year ended May 31, 2019, the Foundation sold a property to an employee of the University. The sales price was approximately \$380,000 and was handled by a third-party agent.

Note 11 - Net Assets Without Donor Restrictions

Net assets without donor restrictions consisted of the following at May 31:

	(In Thousands)	
	2019	2018
Undesignated	\$ 26,182	\$ 24,765
Board-designated quasi-endowment	3,153	3,145
Capital projects	450	
Total Net Assets Without Donor Restrictions	\$ 29,785	\$ 27,910

Board Designated Quasi-Endowment - The Board of Directors of the University has established a quasi-endowment with funds that are not anticipated to be needed for operations (Note 13). The Board has set aside \$450,000 to be used for future capital needs on campus.

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

**Notes to Consolidated Financial Statements
For the Year Ended May 31, 2019
(With Comparative Totals for the Year Ended May 31, 2018)**

Note 12 - Net Assets with Donor Restrictions

Net assets with donor restrictions subject to the passage of time or expenditure for specified purposes are generally available for scholarships to students or have time restrictions related to remainder trusts.

Net assets with donor restrictions consisted of the following as of May 31:

	(In Thousands)	
	2019	2018
Subject to the Passage of Time or Expenditure for Specified Purpose-		
Charitable remainder trusts, time restricted	\$ 828	\$ 758
Beneficial interests in agreements held by AGF	4	4
Accumulated earnings on endowments (Note 13)	884	1,069
Contributions restricted for other specific purposes		
New program start-up costs	100	149
President special projects	14	17
Capital campaign projects	487	415
Specific grants for research purposes	216	302
Specific scholarship funds	89	76
Benevolence	155	161
International short-term summer camp scholarships	109	
	<u>2,886</u>	<u>2,951</u>
Total subject to the passage of time or expenditure for specified purpose		
	2,886	2,951
Subject to Restrictions in Perpetuity-		
Charitable remainder trusts	316	303
Beneficial interests in agreements held by AGF	11	11
Endowments (Note 13)	4,931	4,415
	<u>5,258</u>	<u>4,729</u>
Total subject to the restrictions in perpetuity		
	5,258	4,729
Total Net Assets with Donor Restrictions	<u><u>\$ 8,144</u></u>	<u><u>\$ 7,680</u></u>

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

**Notes to Consolidated Financial Statements
For the Year Ended May 31, 2019
(With Comparative Totals for the Year Ended May 31, 2018)**

Note 13 - Endowment Funds

The University's endowment consists of 93 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 (Note 11). 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.

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 net assets with donor restrictions 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. Accumulated unspent earnings on the permanent endowment remain donor restricted until 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)			
	Without Donor Restrictions	With Donor Restrictions	2019 Total	2018 Total
Donor restricted endowment funds	\$ -	\$ 5,815	\$ 5,815	\$ 5,484
Board designated endowment funds	3,153		3,153	3,145
Total Endowment Net Assets	\$ 3,153	\$ 5,815	\$ 8,968	\$ 8,629

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

**Notes to Consolidated Financial Statements
For the Year Ended May 31, 2019
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Note 13 - Continued

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

	(In Thousands)			
	Without Donor Restrictions	With Donor Restrictions	2019 Total	2018 Total
Endowment net assets, beginning of year	\$ 3,145	\$ 5,484	\$ 8,629	\$ 7,906
Endowment investment return		(32)	(32)	494
Endowment contributions	8	526	534	327
Transfer (to) from endowments		(10)	(10)	17
Appropriation of endowment for expenditure		(153)	(153)	(115)
Endowment Net Assets, End of Year	<u>\$ 3,153</u>	<u>\$ 5,815</u>	<u>\$ 8,968</u>	<u>\$ 8,629</u>

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. The University's policy is to suspend spending from endowment funds with deficiencies until they recover the corpus balance through future earnings. There were no deficiencies reported at May 31, 2019 and 2018.

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 University 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, 2019
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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 4.50% 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 4.50% 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 - The University has several operating leases for copiers and printers. Leases will expire at the end of 2020 and 2022. Lease payments for copiers, printers, and office space were recorded as expense in the amounts of \$174,000 and \$172,000 for the years ended May 31, 2019 and 2018, respectively.

Future minimum lease payments for the year ending May 31,

For the Year Ending May 31,	<u>(In Thousands)</u>
2020	\$ 82
2021	42
2022	<u>42</u>
Total Lease Payments	<u>\$ 166</u>

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.

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

**Notes to Consolidated Financial Statements
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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 \$179,000 and \$173,000 for the years ended May 31, 2019 and 2018, respectively.

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

For the Year Ending May 31,	<u>(In Thousands)</u>
2020	\$ 184
2021	189
2022	117
2023	<u>61</u>
Future Minimum Rental Receipts	<u>\$ 551</u>

Note 16 - Liquidity and Availability of Financial Assets

Liquidity - The University's cash flows have seasonal variations during the year attributed in large part to tuition billing, large capital projects, significant summer repairs and maintenance projects, and a concentration of contributions received at calendar year end and a spring fundraising event. In addition, there are Governmental reimbursements for financial aid that are concentrated at the beginning of each semester. In order to manage liquidity to meet the cash flow needs for general expenditures, bank loan principal payments, and other obligations that come due with the upcoming year, the University maintains general cash and money market accounts, a certificate of deposit laddering strategy, and long-term investment accounts with its cash management bank and investment brokers. The cash balances outstanding as of May 31, 2019 were \$8,127,000, the certificates of deposits outstanding as of May 31, 2019 that mature within one year were \$382,000, two years were \$383,000 and three years were \$433,000. The long-term investments are invested primarily in equity and bond mutual funds making access to funds readily available within a two to three-month window, if additional funds are needed to manage cash flows.

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

**Notes to Consolidated Financial Statements
For the Year Ended May 31, 2019
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Note 16 - Continued

Availability of Financial Assets - Financial assets available for general expenditure, that is without donor or other restrictions limiting their use, within one year of the date of the statement of financial position, consisted of the following as of May 31:

	(In Thousands)	
	2019	2018
Cash	\$ 8,127	\$ 7,295
Accounts receivable	362	212
Student accounts receivable, net, current portion	1,433	1,162
Pledges receivable, net	87	
Notes receivable, current portion	22	16
Investments	18,019	17,259
	<u>28,050</u>	<u>25,944</u>
Contractual or donor-imposed restrictions-		
Endowment funds	(5,815)	(5,484)
Revolving Note Fund	(2,303)	(2,173)
Board designations-		
Quasi-endowment	(3,153)	(3,145)
Capital projects	(450)	
Financial Assets Available to Meet Cash Needs for General Operating Expenditures Within One Year	<u><u>\$ 16,779</u></u>	<u><u>\$ 15,142</u></u>

SUPPLEMENTARY INFORMATION

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION
Consolidating Schedule of Financial Position - Assets
May 31, 2019
(With Comparative Totals for May 31, 2018)
(In Thousands)

	University	Foundation	2019 Consolidated Total	2018 Consolidated Total
Assets				
Current Assets:				
Cash and cash equivalents	\$ 6,934	\$ 1,193	\$ 8,127	\$ 7,295
Cash and cash equivalents, government student loan program	162		162	44
Prepaid expenses	497		497	332
Accounts receivable	362		362	212
Student accounts receivable, net (Note 3)	1,433		1,433	1,162
Pledge receivable, net	87		87	
Notes receivable, current portion	13	9	22	16
Total Current Assets	9,488	1,202	10,690	9,061
Notes receivable, net of current portion	36	244	280	327
Government student loan program receivable, net (440		440	616
Asset held for sale		390	390	390
Capitalized lease costs, net	13		13	20
Investments	7,246	10,773	18,019	17,259
Investments held in split interest agreements	238	3,635	3,873	4,054
Beneficial interest in assets held by other charities		15	15	15
Property and equipment, net	44,179		44,179	44,865
Total Assets	\$ 61,640	\$ 16,259	\$ 77,899	\$ 76,607

See independent auditor's report.

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION
Consolidating Schedule of Financial Position - Liabilities and Net Assets
May 31, 2019
(With Comparative Totals for 2018)
(In Thousands)

	University	Foundation	2019 Consolidated Total	2018 Consolidated Total
Liabilities and Net Assets				
Current Liabilities:				
Accounts payable and accrued expenses	\$ 3,945	\$ -	\$ 3,945	\$ 3,527
Student deposits	574		574	674
Deferred revenue	2,091		2,091	2,177
Notes and bonds payable, current portion	1,208	665	1,873	1,829
Total Current Liabilities	7,818	665	8,483	8,207
Notes and bonds payable, net of current portion and unamortized bond fees	26,540	1,638	28,178	29,231
Split interest agreement obligations	164	2,490	2,654	2,920
Government student loan program	500		500	504
Asset retirement obligations	155		155	155
Total Liabilities	35,177	4,793	39,970	41,017
Net Assets:				
Without donor restrictions	25,827	3,958	29,785	27,910
With donor restrictions	636	7,508	8,144	7,680
Total Net Assets	26,463	11,466	37,929	35,590
Total Liabilities and Net Assets	\$ 61,640	\$ 16,259	\$ 77,899	\$ 76,607

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, 2019
(With Comparative Totals for May 31, 2018)
(In Thousands)

	University			Foundation			2019 Consolidated Total	2018 Consolidated Total
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total		
Operating Revenue and Support:								
Tuition and fees	\$ 43,593	\$ -	\$ 43,593	\$ -	\$ -	\$ -	\$ 43,593	\$ 40,878
Less student assistance	(14,441)		(14,441)				(14,441)	(12,899)
	29,152		29,152				29,152	27,979
Sales and services of auxiliary enterprises	6,820		6,820				6,820	6,278
Government grants	245		245				245	219
Private gifts and grants	1,826	187	2,013		609	609	2,622	2,569
Operating return on investments, net	527		527		192	192	719	504
Other income	610		610	91		91	701	633
Support from Foundation to University	75		75	(75)		(75)		
Net assets released from restriction	222	(222)		169	(169)			
Total Operating Revenue and Support	39,477	(35)	39,442	185	632	817	40,259	38,182
Operating Expenses:								
Program services	29,353		29,353				29,353	29,252
Institutional support	7,083		7,083	56		56	7,139	6,644
Fundraising	865		865				865	749
Total Operating Expenses	37,301		37,301	56		56	37,357	36,645
Change in Net Assets From Operations	2,176	(35)	2,141	129	632	761	2,902	1,537
Nonoperating Activities:								
Nonoperating return on investments, net	(429)		(429)	(7)	(216)	(223)	(652)	936
Change in value of split interest agreements	6		6		83	83	89	(108)
Change in value of interest rate swap agreements								19
Change in Net Assets	1,753	(35)	1,718	122	499	621	2,339	2,384
Net assets, beginning of year	24,074	671	24,745	3,836	7,009	10,845	35,590	33,206
Net Assets, End of Year	\$ 25,827	\$ 636	\$ 26,463	\$ 3,958	\$ 7,508	\$ 11,466	\$ 37,929	\$ 35,590

See independent auditor's report.