



**NORTHWEST UNIVERSITY AND NORTHWEST
UNIVERSITY FOUNDATION**

Consolidated Financial Statements

For the Year Ended May 31, 2020

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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, 2020, 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. 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.

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, 2020, and its activities and changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.



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Report on Summarized Comparative Information

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

Clark Nuber P.S.

Certified Public Accountants
September 28, 2020

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION
Consolidated Statement of Financial Position - Assets
May 31, 2020
(With Comparative Totals for May 31, 2019)
(In Thousands)

	<u>2020</u>	<u>2019</u>
Assets		
Current Assets:		
Cash and cash equivalents	\$ 8,924	\$ 8,127
Cash and cash equivalents, government student loan program	107	162
Prepaid expenses	434	497
Accounts receivable	287	362
Student accounts receivable, net (Note 3)	1,401	1,433
Pledges receivable, net, current portion (Note 2)	49	37
Notes receivable, current portion	<u>23</u>	<u>22</u>
Total Current Assets	11,225	10,640
Pledges receivable, net of current portion	167	50
Notes receivable, net of current portion	252	280
Government student loan program receivable, net (Note 3)	342	440
Asset held for sale	390	390
Capitalized lease costs, net	7	13
Investments	19,152	18,019
Investments held in split interest agreements	3,545	3,873
Beneficial interest in assets held by other charities	14	15
Property and equipment, net	<u>43,319</u>	<u>44,179</u>
Total Assets	<u>\$ 78,413</u>	<u>\$ 77,899</u>

See accompanying notes.

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION
Consolidated Statement of Financial Position - Liabilities and Net Assets
May 31, 2020
(With Comparative Totals for May 31, 2019)
(In Thousands)

	<u>2020</u>	<u>2019</u>
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 3,548	\$ 3,945
Student deposits	599	574
Deferred revenue	2,067	2,091
Notes and bonds payable, current portion	<u>1,799</u>	<u>1,873</u>
Total Current Liabilities	8,013	8,483
Notes and bonds payable, net of current portion and unamortized bond fees	27,038	28,178
Split interest agreement obligations	2,553	2,654
Government student loan program	352	500
Asset retirement obligations	<u>155</u>	<u>155</u>
Total Liabilities	38,111	39,970
Net Assets:		
Without donor restrictions	31,510	29,785
With donor restrictions	<u>8,792</u>	<u>8,144</u>
Total Net Assets	<u>40,302</u>	<u>37,929</u>
Total Liabilities and Net Assets	<u>\$ 78,413</u>	<u>\$ 77,899</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, 2020
(With Comparative Totals for the Year Ended May 31, 2019)
(In Thousands)

	Without Donor Restrictions	With Donor Restrictions	2020 Total	2019 Total
Operating Revenue and Support:				
Tuition and fees	\$ 43,955	\$ -	\$ 43,955	\$ 43,593
Less student assistance	(14,850)		(14,850)	(14,441)
	29,105		29,105	29,152
Sales and services of auxiliary enterprises	6,165		6,165	6,820
Government grants	1,313		1,313	245
Private gifts and grants	1,857	1,295	3,152	2,622
Operating return on investments, net	500	162	662	719
Other income	616		616	701
Net assets released from restrictions	708	(708)		
Total Operating Revenue and Support	40,264	749	41,013	40,259
Operating Expenses:				
Program Services	29,995		29,995	29,353
Institutional Support	7,370		7,370	7,139
Fundraising	974		974	865
Total Operating Expenses	38,339		38,339	37,357
Change in Net Assets From Operations	1,925	749	2,674	2,902
Nonoperating Activities:				
Nonoperating return on investments, net	(187)	17	(170)	(652)
Change in value of split interest agreements	(13)	(118)	(131)	89
Change in Net Assets	1,725	648	2,373	2,339
Net assets, beginning of year	29,785	8,144	37,929	35,590
Net Assets, End of Year	\$ 31,510	\$ 8,792	\$ 40,302	\$ 37,929

See accompanying notes.

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION
Consolidated Statement of Functional Expenses
For the Year Ended May 31, 2020
(With Comparative Totals for the Year Ended May 31, 2019)
(In Thousands)

	Program Services	Support Services			2020 Total	2019 Total
		Institutional Support	Fundraising	Total		
Operating Expenses:						
Salaries	\$ 15,606	\$ 1,568	\$ 477	\$ 2,045	\$ 17,651	\$ 17,347
Payroll taxes	988	91	26	117	1,105	1,054
Benefits	2,895	628	73	701	3,596	3,305
Total salaries, taxes and benefits	19,489	2,287	576	2,863	22,352	21,706
Management services	2,955	212	32	244	3,199	3,301
Depreciation and amortization	38	2,443	1	2,444	2,482	2,523
Miscellaneous	1,665	588	179	767	2,432	2,276
Professional services	854	300	26	326	1,180	919
Instructional expenses	1,151				1,151	1,614
Travel	1,022	21	39	60	1,082	1,260
Utilities	921	39	18	57	978	970
Interest, bond costs and bank fees	703	170	34	204	907	1,012
Maintenance	573	26	12	38	611	622
Advertising and marketing	29	489		489	518	435
General and administrative		423		423	423	351
Insurance	36	372		372	408	293
Fundraising events	21		57	57	78	75
Total operating expenses before scholarships	29,457	7,370	974	8,344	37,801	37,357
Student scholarships (Note 17)	538				538	
Total Operating Expenses	\$ 29,995	\$ 7,370	\$ 974	\$ 8,344	\$ 38,339	\$ 37,357

See accompanying notes.

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION
Consolidated Statement of Cash Flows
For the Year Ended May 31, 2020
(With Comparative Totals for the Year Ended May 31, 2019)
(In Thousands)

	<u>2020</u>	<u>2019</u>
Cash Flows From Operating Activities:		
Change in net assets	\$ 2,373	\$ 2,339
Adjustments to reconcile change in net assets to net cash provided by operating activities-		
Noncash changes:		
Depreciation	2,439	2,479
Amortization of bond issuance costs	38	37
Realized and unrealized loss on investments	181	628
Change in value of split interest agreements	131	(89)
Change in beneficial interest in assets held by other charities	1	
Accrued interest on notes payable	23	22
Net loss on disposal of land, property and equipment		(91)
Change in allowance for doubtful accounts	85	(66)
Contributions to donor restricted endowments	(603)	(534)
Change in operating assets and liabilities:		
Prepaid expenses	63	(165)
Accounts receivable	75	(150)
Pledges receivable	(173)	(91)
Student accounts receivable	(41)	(142)
Capitalized lease costs	6	7
Accounts payable and accrued expenses	(397)	420
Student deposits	25	(100)
Deferred revenue	(24)	(86)
Net Cash Provided by Operating Activities	4,202	4,418
Cash Flows From Investing Activities:		
Purchase of property and equipment	(1,579)	(2,044)
Purchase of investments	(7,107)	(3,968)
Proceeds from sale of property		340
Proceeds from sales of investments	5,793	2,580
Proceeds from sales of split interest investments	328	243
Payments received on notes receivable	27	41
Net change in government student loan program receivable	65	117
Net Cash Used by Investing Activities	<u>\$ (2,473)</u>	<u>\$ (2,691)</u>

See accompanying notes.

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION
Consolidated Statement of Cash Flows (Continued)
For the Year Ended May 31, 2020
(With Comparative Totals for the Year Ended May 31, 2019)
(In Thousands)

	<u>2020</u>	<u>2019</u>
Cash Flows From Financing Activities:		
Payments of notes and bonds payable	\$ (1,275)	\$ (1,230)
Proceeds from issuance of notes payable		162
Contributions to donor restricted endowments	603	534
Beneficial payments made for charitable remainder trusts and gift annuities	(232)	(239)
Decrease in government student loan program liability	<u>(83)</u>	<u>(4)</u>
Net Cash Used by Financing Activities	<u>(987)</u>	<u>(777)</u>
Net Change in Cash and Cash Equivalents	742	950
Cash and cash equivalents, beginning of year	<u>8,289</u>	<u>7,339</u>
Cash and Cash Equivalents, End of Year	<u>\$ 9,031</u>	<u>\$ 8,289</u>
Supplementary Disclosure of Cash Flow Information:		
Cash paid for interest	\$ 797	\$ 816
Noncash increase in fixed assets - additions in payables	6	42
Reconciliation of Cash Balances:		
Cash and cash equivalents	8,924	8,127
Cash and cash equivalents, government student loan program	<u>107</u>	<u>162</u>
Total Cash and Cash Equivalents	<u>\$ 9,031</u>	<u>\$ 8,289</u>

See accompanying notes.

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

Notes to Consolidated Financial Statements For the Year Ended May 31, 2020 (With Comparative Totals for the Year Ended May 31, 2019)

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 in the period in which 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, 2020 (With Comparative Totals for the Year Ended May 31, 2019)

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, and the actuarial gains and losses on trusts and annuities.

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 (pledges), are recognized as revenue when the donor's promise is received. Unconditional pledges received and collected in the same reporting period are recorded as revenue when cash is received. Unconditional pledges 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 pledges 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, 2020 and 2019, pledges receivable, net of an allowance for doubtful accounts of \$48,000 and \$4,000, respectively, will be paid within one year. Pledges intended for capital projects are reported as noncurrent on the statement of financial position.

Conditional pledges 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 intentions to give 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 for which the restrictions are met within the same fiscal year as the contribution is received 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, 2020 and 2019. Notes receivable represent .4% of total assets at both May 31, 2020 and 2019, respectively.

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.

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

Notes to Consolidated Financial Statements For the Year Ended May 31, 2020 (With Comparative Totals for the Year Ended May 31, 2019)

Note 2 - Continued

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 7.0%, 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 are classified based on 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.

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.

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

Notes to Consolidated Financial Statements For the Year Ended May 31, 2020 (With Comparative Totals for the Year Ended May 31, 2019)

Note 2 - Continued

Deferred Revenue - Deferred revenue represents funds the University received in fiscal years 2020 and 2019 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 \$99,000 and \$119,000 as of May 31, 2020 and 2019, 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 \$620,000 and \$546,000 for the years ended May 31, 2020 and 2019, 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.

New Accounting Pronouncement - During the year ended May 31, 2020, the University adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) No. 2018-08 - Not-for-Profit Entities (Topic 958): *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. This update was issued to clarify and improve the scope and accounting guidance for contributions received and contributions made. The update assists entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions and (2) determining whether a contribution is conditional. The University elected to adopt this ASU prospectively. There were no changes in revenue recognition as a result of adopting this ASU.

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

**Notes to Consolidated Financial Statements
For the Year Ended May 31, 2020
(With Comparative Totals for the Year Ended May 31, 2019)**

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, 2019, from which the summarized information was derived.

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.

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)	
	2020	2019
Student accounts receivable - active	\$ 1,917	\$ 1,877
Allowance for bad debts - active	(529)	(481)
Student Accounts Receivable - Active, Net	1,388	1,396
Student accounts receivable on third party payment plan	13	37
Student accounts receivable - assigned	714	689
Allowance for bad debts - assigned	(714)	(689)
Student Accounts Receivable - Assigned, Net	—	—
Total Student Accounts Receivable, Net	\$ 1,401	\$ 1,433

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). No loans are deemed by management to be impaired. The Federal Perkins Loan program ended on September 30, 2017; therefore, the University is no longer extending loans under this program. During the year ended May 31, 2020, eighteen loans totaling approximately \$65,000 were factored to and accepted by the Department of Education.

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

Notes to Consolidated Financial Statements
 For the Year Ended May 31, 2020
 (With Comparative Totals for the Year Ended May 31, 2019)

Note 3 - Continued

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

	(In Thousands)		(In Thousands)	
	2020		2019	
	Perkins	Percent of Total Loan Portfolio	Perkins	Percent of Total Loan Portfolio
Good standing-				
Deferred, not in repayment	\$ 145	39.30%	\$ 235	47.09%
Repayment on schedule	89	24.12%	84	16.83%
	234	63.41%	319	63.93%
Past due-				
Not defaulted less than 240 days	23	6.23%	31	6.21%
Default greater than 240 days but less than 2 years	22	5.96%	14	2.81%
Default greater than 2 years but less than 5 years	23	6.23%	135	27.05%
Default greater than 5 years	67	18.16%		
	135	36.59%	180	36.07%
Total Government Student Loan Program Receivable	369	100.00%	499	100.00%
Allowance for uncollectible loans	(27)		(59)	
Total Government Student Loan Program Receivable, Net	\$ 342		\$ 440	

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

**Notes to Consolidated Financial Statements
For the Year Ended May 31, 2020
(With Comparative Totals for the Year Ended May 31, 2019)**

Note 4 - Investments

University investments consisted of the following at May 31:

	(In Thousands)	
	2020	2019
Investments at fair value-		
Equity mutual funds	\$ 7,192	\$ 6,698
Common and preferred stocks	4,758	4,950
Bond mutual funds	199	264
Term loan certificates	1,575	1,197
Corporate bonds and notes	3,558	3,609
Government backed securities	1,308	1,066
Real estate funds	138	
Total investments at fair value	18,728	17,784
Investments at cost or net realizable value-		
Cash	424	235
Total Investments	\$ 19,152	\$ 18,019

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

	(In Thousands)	
	2020	2019
Investments at fair value-		
Equity mutual funds	\$ 1,427	\$ 1,599
Bond mutual funds	1,514	1,618
Common stocks	405	452
Real estate funds	79	110
Total investments at fair value	3,425	3,779
Investments at cost-		
Cash	112	86
Real estate	8	8
Total investments at cost	120	94
Total Investments Held in Split Interest Agreements	\$ 3,545	\$ 3,873

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

Notes to Consolidated Financial Statements For the Year Ended May 31, 2020 (With Comparative Totals for the Year Ended May 31, 2019)

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)	
	2020	2019
Operating return on investments, net	\$ 662	\$ 719
Nonoperating return on investments, net	(170)	(652)
Total Return on Investments, Net	\$ 492	\$ 67

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, 2020 and 2019.

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.

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.

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

**Notes to Consolidated Financial Statements
For the Year Ended May 31, 2020
(With Comparative Totals for the Year Ended May 31, 2019)**

Note 5 - Continued

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

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

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.

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, 2020:

	(In Thousands)		
	Level 1	Level 2	Total
University Investments			
Equity mutual funds-			
Large cap blend funds	\$ 1,998	\$ -	\$ 1,998
Mid cap blend funds	3,197		3,197
Small cap blend funds	863		863
International funds	972		972
Commodity funds	162		162
	<hr/>	<hr/>	<hr/>
Total equity mutual funds	7,192		7,192
Bond mutual funds	199		199
	<hr/>	<hr/>	<hr/>
Total mutual funds	7,391		7,391
Common and preferred stocks	4,758		4,758
Real estate funds	138		138
Corporate bonds and notes		3,558	3,558
Term loan certificates		1,575	1,575
Government backed securities		1,308	1,308
	<hr/>	<hr/>	<hr/>
Total Investments at Fair Value	\$ 12,287	\$ 6,441	\$ 18,728

There were no University Investments classified as Level 3 at May 31, 2020.

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

**Notes to Consolidated Financial Statements
For the Year Ended May 31, 2020
(With Comparative Totals for the Year Ended May 31, 2019)**

Note 5 - Continued

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
	<u>6,698</u>		<u>6,698</u>
Total equity mutual funds			6,698
Bond mutual funds	<u>264</u>		<u>264</u>
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
	<u>11,912</u>	<u>5,872</u>	<u>17,784</u>
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, 2020
(With Comparative Totals for the Year Ended May 31, 2019)**

Note 5 - Continued

Trust and annuity investment assets recorded at fair value on a recurring basis are as follows at May 31, 2020:

	(In Thousands)		
	Level 1	Level 3	Total
Investments Held in Charitable Remainder Trusts and Annuities			
Equity mutual funds-			
Large cap blend funds	\$ 888	\$ -	\$ 888
Mid cap blend funds	82		82
Small cap blend funds	58		58
International funds	289		289
Commodity funds	110		110
	<u>1,427</u>		<u>1,427</u>
Total equity mutual funds	1,427		1,427
Bond mutual funds	<u>1,514</u>		<u>1,514</u>
Total mutual funds	2,941		2,941
Common stocks	405		405
Real estate funds	<u>79</u>		<u>79</u>
Total Trust and Annuity Assets at Fair Value	3,425		3,425
Beneficial Interest in Assets Held by Other Charities		14	14
		<u>14</u>	<u>14</u>
Total Trust and Annuity Assets at Fair Value	\$ 3,425	\$ 14	\$ 3,439
	<u>\$ 3,425</u>	<u>\$ 14</u>	<u>\$ 3,439</u>

There were no trust and annuity investments classified as Level 2 at May 31, 2020.

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

**Notes to Consolidated Financial Statements
For the Year Ended May 31, 2020
(With Comparative Totals for the Year Ended May 31, 2019)**

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
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	<u>\$ 3,779</u>	<u>\$ 15</u>	<u>\$ 3,794</u>

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

A reconciliation of the beginning and ending balances of the beneficial interest in assets held by other charities for which fair value measurements are made on a recurring basis using significant unobservable inputs (Level 3), is as follows for the years ended May 31:

	(In Thousands)	
	2020	2019
Beginning balance	\$ 15	\$ 15
Unrealized loss	<u>(1)</u>	
Assets and Liabilities at Level 3, Net	<u>\$ 14</u>	<u>\$ 15</u>

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

**Notes to Consolidated Financial Statements
For the Year Ended May 31, 2020
(With Comparative Totals for the Year Ended May 31, 2019)**

Note 6 - Split Interest Agreements

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

	(In Thousands)	
	2020	2019
Split interest agreement investments (Note 4)-		
Charitable remainder trusts	\$ 3,290	\$ 3,635
Charitable gift annuities	255	238
Total split interest agreement investments	3,545	3,873
Beneficial interests in agreements held by AGF	14	15
Liabilities due under split interest agreements-		
Charitable remainder trusts	(2,158)	(2,220)
Charitable trust funds held for others	(238)	(270)
Charitable gift annuities	(157)	(164)
Total liabilities due under split interest agreements	(2,553)	(2,654)
Total Split Interest Agreement Net Assets	\$ 1,006	\$ 1,234

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

	(In Thousands)				
	Trusts	Annuities	Other	2020 Total	2019 Total
Change in assets-					
Return on investments	\$ (118)	\$ (13)	\$ (1)	\$ (132)	\$ 89
Transfers in	218	50		268	
Payments to trust beneficiaries or annuitants	(213)	(19)		(232)	(239)
Maturity of assets held	(233)			(233)	
Change in liabilities-					
Change in actuarial liabilities, net CRUT obligation maturity	(219)	(12)		(231)	(4)
Payments to trust beneficiaries or annuitants	213	19		232	239
Net Change During the Year	(252)	25	(1)	(228)	85
Total split interest net assets, beginning of year	1,144	75	15	1,234	1,149
Total Split Interest Net Assets, End of Year	\$ 892	\$ 100	\$ 14	\$ 1,006	\$ 1,234

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

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

**Notes to Consolidated Financial Statements
For the Year Ended May 31, 2020
(With Comparative Totals for the Year Ended May 31, 2019)**

Note 7 - Property and Equipment

Property and equipment consisted of the following at May 31:

	(In Thousands)	
	2020	2019
Land	\$ 3,308	\$ 3,308
Buildings and improvements	60,669	58,778
Equipment	10,051	9,947
Construction in progress	105	1,107
	74,133	73,140
Less accumulated depreciation and amortization	<u>(30,814)</u>	<u>(28,961)</u>
Property and Equipment, Net	<u>\$ 43,319</u>	<u>\$ 44,179</u>

Depreciation expense totaled \$2,439,000 and \$2,479,000 for the years ended May 31, 2020 and 2019, respectively.

Note 8 - Notes and Bonds Payable

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

	(In Thousands)	
	2020	2019
Unsecured notes payable to various churches, church associations, and church members of the Assemblies of God, interest rates from 1.25% to 3.60%, various maturities from 2020 to 2025 (Note 10).	\$ 2,256	\$ 2,303
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.	24,621	25,739
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>2,232</u>	<u>2,319</u>
Total Notes and Bonds Payable	29,109	30,361
Less portion due within one year	<u>(1,799)</u>	<u>(1,873)</u>
	27,310	28,488
Less unamortized bond issuance costs	<u>(272)</u>	<u>(310)</u>
Notes and Bonds Payable, Net	<u>\$ 27,038</u>	<u>\$ 28,178</u>

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

Notes to Consolidated Financial Statements For the Year Ended May 31, 2020 (With Comparative Totals for the Year Ended May 31, 2019)

Note 8 - Continued

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 Series 2017 Bonds and the taxable loan are collateralized by the Commercial Security Agreement, Deed of Trust, and Assignment of Rent Agreement, all dated August 30, 2017.

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, 2020.

Principal maturities for notes and bonds payable are as follows:

For the Year Ending May 31,	(In Thousands)
2021	\$ 1,799
2022	1,620
2023	1,480
2024	1,565
2025	1,961
Thereafter	<u>20,684</u>
Total Long-Term Debt	<u>\$ 29,109</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 \$789,000 and \$817,000, for the years ended May 31, 2020 and 2019, 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 \$272,000 and \$310,000 as of May 31, 2020 and 2019, respectively.

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

Notes to Consolidated Financial Statements For the Year Ended May 31, 2020 (With Comparative Totals for the Year Ended May 31, 2019)

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 \$705,000 and \$688,000 for the years ended May 31, 2020 and 2019, respectively.

Note 10 - Related Party Transactions

Notes payable to various churches, church associations, and church members related to the Assemblies of God (Note 1) totaled \$2,256,000 and \$2,303,000 at May 31, 2020 and 2019, respectively. The University paid \$62,000 and \$56,000 in interest to these organizations and members.

AGF manages various cash and investments of the University totaling approximately \$2,597,000 and \$2,201,000 at May 31, 2020 and 2019, respectively. AGF is an affiliate of the Assemblies of God.

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 \$14,000 and \$15,000 at May 31, 2020 and 2019, 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)	
	2020	2019
Undesignated	\$ 27,873	\$ 26,182
Board-designated quasi-endowment	3,187	3,153
Capital projects	450	450
Total Net Assets Without Donor Restrictions	\$ 31,510	\$ 29,785

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, 2020
(With Comparative Totals for the Year Ended May 31, 2019)**

Note 12 - Net Assets with Donor Restrictions

Net assets with donor restrictions are subject to the passage of time or expenditure for specified purposes as described below and consisted of the following as of May 31:

	(In Thousands)	
	2020	2019
Subject to the Passage of Time or Expenditure for Specified Purpose-		
Charitable remainder trusts, time restricted	\$ 618	\$ 828
Beneficial interests in agreements held by AGF	4	4
Accumulated earnings on endowments (Note 13)	897	884
Contributions restricted for other specific purposes:		
New program start-up costs	78	100
President special projects	1	14
Capital campaign projects	641	487
Specific grants for research purposes	369	216
Specific scholarship funds	204	89
Benevolence	121	155
International short-term summer camp scholarships	53	109
Total subject to the passage of time or expenditure for specified purpose	2,986	2,886
Subject to Restrictions in Perpetuity-		
Charitable remainder trusts	275	316
Beneficial interests in agreements held by AGF	10	11
Endowments (Note 13)	5,521	4,931
Total subject to the restrictions in perpetuity	5,806	5,258
Total Net Assets With Donor Restrictions	\$ 8,792	\$ 8,144

Note 13 - Endowment Funds

The University's endowment consists of 96 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.

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

**Notes to Consolidated Financial Statements
For the Year Ended May 31, 2020
(With Comparative Totals for the Year Ended May 31, 2019)**

Note 13 - Continued

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	2020 Total	2019 Total
Donor restricted endowment funds	\$ -	\$ 6,418	\$ 6,418	\$ 5,815
Board designated endowment funds	3,187		3,187	3,153
Total Endowment Net Assets	\$ 3,187	\$ 6,418	\$ 9,605	\$ 8,968

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

	(In Thousands)			
	Without Donor Restrictions	With Donor Restrictions	2020 Total	2019 Total
Endowment net assets, beginning of year	\$ 3,153	\$ 5,815	\$ 8,968	\$ 8,629
Endowment investment return	33	179	212	(32)
Endowment contributions	1	603	604	534
Transfer to (from) endowments	7		7	(10)
Appropriation of endowment for expenditure	(7)	(179)	(186)	(153)
Endowment Net Assets, End of Year	\$ 3,187	\$ 6,418	\$ 9,605	\$ 8,968

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

Notes to Consolidated Financial Statements For the Year Ended May 31, 2020 (With Comparative Totals for the Year Ended May 31, 2019)

Note 13 - Continued

Funds With Deficiencies - From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or 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. One endowment with an original corpus of \$50,000 had a fair value of \$46,000 on May 31, 2020, resulting in a deficiency of \$4,000 at May 31, 2020. There were no endowment deficiencies at May 31, 2019.

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.

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. Lease payments for copiers, printers, and office space were recorded as expense in the amounts of \$148,000 and \$174,000 for the years ended May 31, 2020 and 2019, respectively.

Future minimum lease payments for the year ending May 31,

For the Year Ending May 31,	(In Thousands)
2021	\$ 110
2022	110
2023	68
2024	68
Total Lease Payments	\$ 356

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

Notes to Consolidated Financial Statements For the Year Ended May 31, 2020 (With Comparative Totals for the Year Ended May 31, 2019)

Note 14 - Continued

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 \$175,000 and \$179,000 for the years ended May 31, 2020 and 2019, respectively.

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

For the Year Ending May 31,	<u>(In Thousands)</u>
2021	\$ 189
2022	117
2023	<u>61</u>
Future Minimum Rental Receipts	<u>\$ 367</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, 2020 were \$8,924,000, the certificates of deposits outstanding as of May 31, 2020 that mature within one year were \$390,000, two years were \$610,000 and three years were \$575,000. 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, 2020
(With Comparative Totals for the Year Ended May 31, 2019)**

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)	
	2020	2019
Cash and cash equivalents	\$ 8,924	\$ 8,127
Accounts receivable	287	362
Student accounts receivable, net	1,401	1,433
Pledges receivable, net, current portion	49	37
Notes receivable, current portion	23	22
Investments	19,152	18,019
	<u>29,836</u>	<u>28,000</u>
Contractual or donor-imposed restrictions-		
Endowment funds	(6,418)	(5,815)
Revolving note fund	(2,256)	(2,303)
Board designations-		
Quasi-endowment	(3,187)	(3,153)
Capital projects	(450)	(450)
	<u>(450)</u>	<u>(450)</u>
Financial Assets Available to Meet Cash Needs for General Operating Expenditures Within One Year	<u>\$ 17,975</u>	<u>\$ 16,729</u>

Note 17 - COVID-19

In December 2019, a novel strain of coronavirus (COVID-19) was identified and declared a “Public Health Emergency of International Concern.” The COVID-19 pandemic caused business disruption through mandated and voluntary closing of multiple businesses and organizations. The University complied with changes mandated by Washington state, which resulted in transitioning traditional classes to a remote learning platform, and reduced housing and other services to students beginning in March 2020.

In response to the COVID-19 pandemic, the U.S. Congress passed the Coronavirus Aid, Relief, and Economic Securities Act (CARES Act). Northwest University applied for and received a Federal grant through the CARES Act from the Higher Education Emergency Relief Fund (HEERF). The grant provided funding for both the University’s students as well as the for the institution.

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

Notes to Consolidated Financial Statements For the Year Ended May 31, 2020 (With Comparative Totals for the Year Ended May 31, 2019)

Note 17 - Continued

Prior to May 31, 2020, the University distributed \$538,000 to the neediest of its student body that met the following criteria:

- Were enrolled in on-campus Spring classes and remained enrolled through the remote learning modality.
- Filed a Free Application for Federal Student Aid (FAFSA) for the 2019-2020 academic year.

The amount distributed was approximately \$846 for each of those students who qualified.

The University also received a HEERF matching grant of \$538,000 to offset expenses incurred due to the shutdown of the University in response to COVID-19. This grant was used to offset housing refunds that were given to students so the University could de-densify the campus. This grant covered approximately 73% of the housing refunds that were distributed in late March and early April 2020.

Also available under the CARES Act, the University has elected to defer payment of the employer portion of Social Security taxes until December 2021 and 2022. The deferral totaled \$158,000 at May 31, 2020.

In April 2020, the University entered into an arrangement with Fidelity Investments and Crossmark Wealth Management for a margin line of credit against its investment portfolio, should additional liquidity be necessary. Draws may be taken against the line of credit of up to 50% of the total investment portfolio balance. The interest rate on the line of credit ranges from the Federal Funds rate plus between 1.5% to 4.5%. The terms of the agreement are open ended. There were no draws taken or outstanding against the line of credit during the year or at May 31, 2020.

Note 18 - Subsequent Events

The University has evaluated subsequent events with respect to the consolidated financial statements for the year ended May 31, 2020, through September 28, 2020, the date on which the consolidated financial statements were issued, and has determined that no adjustments are necessary to the amounts reported in the accompanying consolidated financial statements, nor have any events occurred, the nature of which would require disclosure, except as discussed below.

The University will implement a modified housing scenario in order to comply with the State of Washington guidance for reopening and maintaining social distancing due to the COVID-19 pandemic. In anticipation of reopening the campus for the Fall semester, the University has entered into an agreement with a nearby hotel for the use of two of the hotel's buildings for rooms and restaurant usage by students. The term of the agreement begins on August 24, 2020 and terminates on May 10, 2021. The University paid a refundable deposit in July 2020 equal to approximately one month's rent. Rent payments are approximately \$93,000 per month.

SUPPLEMENTARY INFORMATION

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION
Consolidating Schedule of Financial Position - Assets
May 31, 2020
(With Comparative Totals for May 31, 2019)
(In Thousands)

	<u>University</u>	<u>Foundation</u>	<u>2020 Consolidated Total</u>	<u>2019 Consolidated Total</u>
Assets				
Current Assets:				
Cash and cash equivalents	\$ 8,105	\$ 819	\$ 8,924	\$ 8,127
Cash and cash equivalents, government student loan program	107		107	162
Prepaid expenses	434		434	497
Accounts receivable	287		287	362
Student accounts receivable, net	1,401		1,401	1,433
Pledge receivable, net, current portion	49		49	37
Notes receivable, current portion	13	10	23	22
Total Current Assets	10,396	829	11,225	10,640
Pledges receivable, net of current portion	167		167	50
Notes receivable, net of current portion	17	235	252	280
Government student loan program receivable, net	342		342	440
Asset held for sale		390	390	390
Capitalized lease costs, net	7		7	13
Investments	7,887	11,265	19,152	18,019
Investments held in split interest agreements	255	3,290	3,545	3,873
Beneficial interest in assets held by other charities		14	14	15
Property and equipment, net	43,319		43,319	44,179
Total Assets	\$ 62,390	\$ 16,023	\$ 78,413	\$ 77,899

See independent auditor's report.

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION
Consolidating Schedule of Financial Position - Liabilities and Net Assets
May 31, 2020
(With Comparative Totals for May 31, 2019)
(In Thousands)

	<u>University</u>	<u>Foundation</u>	<u>2020 Consolidated Total</u>	<u>2019 Consolidated Total</u>
Liabilities and Net Assets				
Current Liabilities:				
Accounts payable and accrued expenses	\$ 3,548	\$ -	\$ 3,548	\$ 3,945
Student deposits	599		599	574
Deferred revenue	2,067		2,067	2,091
Notes and bonds payable, current portion	<u>1,239</u>	<u>560</u>	<u>1,799</u>	<u>1,873</u>
Total Current Liabilities	7,453	560	8,013	8,483
Notes and bonds payable, net of current portion and unamortized bond fees	25,342	1,696	27,038	28,178
Split interest agreement obligations	157	2,396	2,553	2,654
Government student loan program	352		352	500
Asset retirement obligations	<u>155</u>		<u>155</u>	<u>155</u>
Total Liabilities	33,459	4,652	38,111	39,970
Net Assets:				
Without donor restrictions	27,984	3,526	31,510	29,785
With donor restrictions	<u>947</u>	<u>7,845</u>	<u>8,792</u>	<u>8,144</u>
Total Net Assets	28,931	11,371	40,302	37,929
Total Liabilities and Net Assets	\$ 62,390	\$ 16,023	\$ 78,413	\$ 77,899

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, 2020
(With Comparative Totals for the Year Ended May 31, 2019)
(In Thousands)

	University			Foundation			2020 Consolidated Total	2019 Consolidated Total
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total		
Operating Revenue and Support:								
Tuition and fees	\$ 43,955	\$ -	\$ 43,955	\$ -	\$ -	\$ -	\$ 43,955	\$ 43,593
Less student assistance	(14,850)		(14,850)				(14,850)	(14,441)
	29,105		29,105				29,105	29,152
Sales and services of auxiliary enterprises	6,165		6,165				6,165	6,820
Government grants	1,313		1,313				1,313	245
Private gifts and grants	1,856	657	2,513	1	638	639	3,152	2,622
Operating return on investments, net	500		500		162	162	662	719
Other income	616		616				616	701
Support from Foundation to University	749		749	(749)		(749)		
Net assets released from restriction	346	(346)		362	(362)			
Total Operating Revenue and Support	40,650	311	40,961	(386)	438	52	41,013	40,259
Operating Expenses:								
Program services	29,995		29,995				29,995	29,353
Institutional support	7,308		7,308	62		62	7,370	7,139
Fundraising	974		974				974	865
Total Operating Expenses	38,277		38,277	62		62	38,339	37,357
Change in Net Assets From Operations	2,373	311	2,684	(448)	438	(10)	2,674	2,902
Nonoperating Activities:								
Nonoperating return on investments, net	(203)		(203)	16	17	33	(170)	(652)
Change in value of split interest agreements	(13)		(13)		(118)	(118)	(131)	89
Change in Net Assets	2,157	311	2,468	(432)	337	(95)	2,373	2,339
Net assets, beginning of year	25,827	636	26,463	3,958	7,508	11,466	37,929	35,590
Net Assets, End of Year	\$ 27,984	\$ 947	\$ 28,931	\$ 3,526	\$ 7,845	\$ 11,371	\$ 40,302	\$ 37,929

See independent auditor's report.