



**NORTHWEST UNIVERSITY AND NORTHWEST
UNIVERSITY FOUNDATION**

Consolidated Financial Statements

For the Year Ended May 31, 2021

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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, 2021, 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, 2021, and the changes in its 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 2020 consolidated financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 28, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended May 31, 2020, 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 34 to 36 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 20, 2021

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION
Consolidated Statement of Financial Position - Assets
May 31, 2021
(With Comparative Totals for May 31, 2020)
(In Thousands)

	<u>2021</u>	<u>2020</u>
Assets		
Current Assets:		
Cash and cash equivalents	\$ 12,253	\$ 8,924
Cash and cash equivalents, government student loan program	88	107
Prepaid expenses	605	434
Accounts receivable	141	287
Student accounts receivable, net (Note 3)	953	1,401
Pledges receivable, net, current portion	62	49
Notes receivable, current portion	10	23
	<u>14,112</u>	<u>11,225</u>
Total Current Assets	14,112	11,225
Pledges receivable, net of current portion	117	167
Notes receivable, net of current portion	226	252
Government student loan program receivable, net (Note 3)	84	342
Asset held for sale		390
Capitalized lease costs, net	26	7
Investments (Note 4)	24,333	19,152
Investments held in split interest agreements (Note 4)	3,813	3,545
Beneficial interest in assets held by other charities	15	14
Property and equipment, net	42,505	43,319
	<u>42,505</u>	<u>43,319</u>
Total Assets	<u>\$ 85,231</u>	<u>\$ 78,413</u>

See accompanying notes.

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION
Consolidated Statement of Financial Position - Liabilities and Net Assets
May 31, 2021
(With Comparative Totals for May 31, 2020)
(In Thousands)

	<u>2021</u>	<u>2020</u>
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 3,757	\$ 3,548
Student deposits	443	599
Deferred revenue	2,026	2,067
Notes and bonds payable, current portion (Note 8)	<u>1,829</u>	<u>1,799</u>
Total Current Liabilities	8,055	8,013
Notes and bonds payable, net of current portion and unamortized bond fees (Note 8)	25,594	27,038
Split interest agreement obligations	2,614	2,553
Government student loan program	173	352
Asset retirement obligations	<u>155</u>	<u>155</u>
Total Liabilities	36,591	38,111
Net Assets:		
Without donor restrictions	37,252	31,510
With donor restrictions	<u>11,388</u>	<u>8,792</u>
Total Net Assets	<u>48,640</u>	<u>40,302</u>
Total Liabilities and Net Assets	<u>\$ 85,231</u>	<u>\$ 78,413</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, 2021
(With Comparative Totals for the Year Ended for May 31, 2020)
(In Thousands)

	Without Donor Restrictions	With Donor Restrictions	2021 Total	2020 Total
Operating Revenue and Support:				
Tuition and fees	\$ 41,401	\$ -	\$ 41,401	\$ 43,955
Less student assistance	(14,250)		(14,250)	(14,850)
	27,151		27,151	29,105
Sales and services of auxiliary enterprises	5,351		5,351	6,165
Government grants	2,357		2,357	1,313
Private gifts and grants	1,757	1,759	3,516	3,152
Operating return on investments, net (Note 4)	571	179	750	662
Other income	355		355	616
Net assets released from restrictions	694	(694)		
Total Operating Revenue and Support	38,236	1,244	39,480	41,013
Operating Expenses:				
Program services	28,441		28,441	29,995
Institutional support	6,854		6,854	7,370
Fundraising	788		788	974
Total Operating Expenses	36,083		36,083	38,339
Change in Net Assets From Operations	2,153	1,244	3,397	2,674
Nonoperating Activities:				
Nonoperating return on investments, net (Note 4)	3,582	1,027	4,609	(170)
Change in value of split interest agreements	7	325	332	(131)
Change in Net Assets	5,742	2,596	8,338	2,373
Net assets, beginning of year	31,510	8,792	40,302	37,929
Net Assets, End of Year	\$ 37,252	\$ 11,388	\$ 48,640	\$ 40,302

See accompanying notes.

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION
Consolidated Statement of Functional Expenses
For the Year Ended May 31, 2021
(With Comparative Totals for the Year Ended May 31, 2020)
(In Thousands)

	Program Services	Support Services			2021 Total	2020 Total
		Institutional Support	Fundraising	Total		
Operating Expenses:						
Salaries	\$ 15,231	\$ 1,555	\$ 399	\$ 1,954	\$ 17,185	\$ 17,651
Payroll taxes	934	83	17	100	1,034	1,105
Benefits	2,595	333	148	481	3,076	3,596
Total salaries, taxes and benefits	18,760	1,971	564	2,535	21,295	22,352
Management services	2,848	144	71	215	3,063	3,199
Depreciation and amortization	40	2,496	1	2,497	2,537	2,482
Miscellaneous	1,261	461	7	468	1,729	2,432
Instructional expenses	1,516				1,516	1,151
Professional services	993	276	12	288	1,281	1,180
Utilities	853	37	17	54	907	978
Interest, bond costs and bank fees	703	146	30	176	879	907
Maintenance	555	30	14	44	599	611
Advertising and marketing	32	565		565	597	518
Insurance	36	351		351	387	408
General and administrative		368		368	368	423
Travel	293	9	28	37	330	1,082
Fundraising events	13		44	44	57	78
Total operating expenses before scholarships	27,903	6,854	788	7,642	35,545	37,801
Student scholarships (Note 17)	538				538	538
Total Operating Expenses	\$ 28,441	\$ 6,854	\$ 788	\$ 7,642	\$ 36,083	\$ 38,339

See accompanying notes.

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION
Consolidated Statement of Cash Flows
For the Year Ended May 31, 2021
(With Comparative Totals for the Year Ended May 31, 2020)
(In Thousands)

	<u>2021</u>	<u>2020</u>
Cash Flows From Operating Activities:		
Change in net assets	\$ 8,338	\$ 2,373
Adjustments to reconcile change in net assets to net cash provided by operating activities-		
Noncash changes:		
Depreciation	2,493	2,439
Amortization of bond issuance costs	38	38
Realized and unrealized (gain) loss on investments	(4,695)	181
Change in value of split interest agreements	(332)	131
Change in beneficial interest in assets held by other charities	1	1
Accrued interest on notes payable	23	23
Provision for allowance for doubtful accounts	20	85
Contributions to donor restricted endowments	(207)	(603)
Change in operating assets and liabilities:		
Prepaid expenses	(171)	63
Accounts receivable	146	75
Pledges receivable	85	(173)
Student accounts receivable	457	(41)
Capitalized lease costs	(19)	6
Accounts payable and accrued expenses	209	(397)
Student deposits	(156)	25
Deferred revenue	(41)	(24)
Net Cash Provided by Operating Activities	6,189	4,202
Cash Flows From Investing Activities:		
Purchase of property and equipment	(1,681)	(1,579)
Purchase of investments	(2,850)	(7,107)
Proceeds from sale of property	390	
Proceeds from sales of investments	2,363	5,793
Proceeds from sales of split interest investments	372	328
Payments received on notes receivable	39	27
Net change in government student loan program receivable	102	65
Net Cash Used by Investing Activities	<u>\$ (1,265)</u>	<u>\$ (2,473)</u>

See accompanying notes.

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION
Consolidated Statement of Cash Flows (Continued)
For the Year Ended May 31, 2021
(With Comparative Totals for the Year Ended May 31, 2020)
(In Thousands)

	<u>2021</u>	<u>2020</u>
Cash Flows From Financing Activities:		
Payments of notes and bonds payable	\$ (1,475)	\$ (1,275)
Contributions to donor restricted endowments	207	603
Beneficial payments made for charitable remainder trusts and gift annuities	(246)	(232)
Decrease in government student loan program liability	<u>(100)</u>	<u>(83)</u>
Net Cash Used by Financing Activities	<u>(1,614)</u>	<u>(987)</u>
Net Change in Cash and Cash Equivalents	3,310	742
Cash and cash equivalents, beginning of year	<u>9,031</u>	<u>8,289</u>
Cash and Cash Equivalents, End of Year	<u>\$ 12,341</u>	<u>\$ 9,031</u>
Supplementary Disclosure of Cash Flow Information:		
Cash paid for interest	\$ 762	\$ 798
Noncash increase in fixed assets - additions in payables		6
Reconciliation of Cash Balances:		
Cash and cash equivalents	12,253	8,924
Cash and cash equivalents, government student loan program	<u>88</u>	<u>107</u>
Total Cash and Cash Equivalents	<u>\$ 12,341</u>	<u>\$ 9,031</u>

See accompanying notes.

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

Notes to Consolidated Financial Statements For the Year Ended May 31, 2021 (With Comparative Totals for the Year Ended May 31, 2020)

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. A contract is entered into with a student and covers a course or term. Revenue recognition occurs once the course begins, after a one week drop period. Student tuition and fees received in advance of services to be rendered are recorded as deferred revenue. Financial assistance in the form of scholarships and grants that cover a portion of tuition and other costs is reflected as a reduction of tuition and fees revenue. The University determined that there are no costs that are capitalized to obtain or to fulfill a contract with a customer.

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

Notes to Consolidated Financial Statements For the Year Ended May 31, 2021 (With Comparative Totals for the Year Ended May 31, 2020)

Note 2 - Continued

Sales and Services of Auxiliary Enterprises - Auxiliary enterprises consists primarily of fees for room and dining services (board) during the student's education. The University considers room and board fees to have separate performance obligations. Room and board fees are charged at different rates for residence halls and apartments. Room fees are billed in advance of each academic term and revenue recognition begins once a student moves into the housing. Deposits and other fees are recognized when no longer refundable. Board fees are charged at different rates depending on the meal plan selected for the term of the agreement. Board fees are billed in advance of each academic term and are non-refundable after the academic term starts. In addition to room and board, auxiliary services include rental and various conference services offered by the University. Revenue from the sale of these goods and services is recognized once the performance obligations are complete.

Government Grants - Government grants are considered conditional upon incurring allowable costs and meeting certain compliance requirements. Revenue from government grants is recognized when these conditions have been met.

Private Gifts and Grants - Private gifts and grants are recognized in the period received, including unconditional pledges when promised, at their fair value. Revenue from conditional grants is recognized when the conditions have been met.

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, 2021 and 2020, pledges receivable, net of an allowance for doubtful accounts of \$0 and \$48,000, respectively, will be paid within one year. Pledges intended for capital projects are reported as noncurrent on the consolidated statement of financial position.

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

Notes to Consolidated Financial Statements For the Year Ended May 31, 2021 (With Comparative Totals for the Year Ended May 31, 2020)

Note 2 - Continued

Conditional pledges are recognized when donor stipulations are 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, 2021 and 2020. Notes receivable represent .3% and .4% of total assets at May 31, 2021 and 2020, 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.

Asset Held for Sale - As of May 31, 2020, the asset held for sale consisted of property donated to the University located in Spanaway, Washington and was reported at the lower of carrying value or fair value. This property was sold during the year ended May 31, 2021.

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 for 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.

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

**Notes to Consolidated Financial Statements
For the Year Ended May 31, 2021
(With Comparative Totals for the Year Ended May 31, 2020)**

Note 2 - Continued

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 by the University 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 \$5,000. 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 2021 and 2020 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 \$79,000 and \$99,000 as of May 31, 2021 and 2020, respectively.

The activity within the deferred revenue accounts was as follows for the year ended May 31, 2021:

	(In Thousands)			
	Tuition and Fees	Auxiliary Enterprises	Other	Total
Balance at May 31, 2020	\$ 1,865	\$ 87	\$ 115	\$ 2,067
Revenue recognized, deposits applied/forfeited	(1,457)	(25)	(7)	(1,489)
Payments received for future use	1,354	94		1,448
Balance at May 31, 2021	\$ 1,762	\$ 156	\$ 108	\$ 2,026

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

Notes to Consolidated Financial Statements For the Year Ended May 31, 2021 (With Comparative Totals for the Year Ended May 31, 2020)

Note 2 - Continued

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 Northwest University and the 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 \$597,000 and \$620,000 for the years ended May 31, 2021 and 2020, 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, 2021, the University adopted the provisions of the Financial Accounting Standards Board's Accounting Standards Update No. 2014-09 (ASU 2014-09) - Revenue from Contracts with Customers. This standard provides clarifying guidance for revenue recognition from contracts with customers. The guidance requires an organization to recognize revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the University expects to be entitled in exchange for those goods or services. The University's revenue is derived primarily from student revenue including but not limited to: tuition and educational fees, room and board, and other auxiliary services. Tuition and related fees are recognized as revenue over the course of the academic term or program for which it is earned. Non-tuition related revenue is recognized as services are performed or goods are delivered. The adoption of ASU 2014-09 did not result in a material change to the timing of when revenue is recognized.

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, 2020, from which the summarized information was derived.

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

**Notes to Consolidated Financial Statements
For the Year Ended May 31, 2021
(With Comparative Totals for the Year Ended May 31, 2020)**

Note 2 - Continued

Subsequent Events - The University has evaluated subsequent events with respect to the consolidated financial statements for the year ended May 31, 2021, through September 20, 2021, the date upon which the consolidated financial statements were available to be 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)	
	<u>2021</u>	<u>2020</u>
Student accounts receivable - active	\$ 1,201	\$ 1,917
Allowance for bad debts - active	<u>(280)</u>	<u>(529)</u>
Student Accounts Receivable - Active, Net	921	1,388
Student accounts receivable on third party payment plan	32	13
Student accounts receivable - assigned	954	714
Allowance for bad debts - assigned	<u>(954)</u>	<u>(714)</u>
Student Accounts Receivable - Assigned, Net	<u> </u>	<u> </u>
Total Student Accounts Receivable, Net	<u>\$ 953</u>	<u>\$ 1,401</u>

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, 2021, 47 loans totaling approximately \$79,000 were factored to and accepted by the Department of Education. Subsequent to May 31, 2021, the remaining Perkins loans were factored to the Department of Education, pending acceptance.

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

Notes to Consolidated Financial Statements
 For the Year Ended May 31, 2021
 (With Comparative Totals for the Year Ended May 31, 2020)

Note 3 - Continued

Government student loan program receivable consisted of the following at May 31:

	(In Thousands)		(In Thousands)	
	2021		2020	
	Perkins	Percent of Total Loan Portfolio	Perkins	Percent of Total Loan Portfolio
Good standing-				
Deferred, not in repayment	\$ 86	45.74%	\$ 145	39.30%
Repayment on schedule	70	37.24%	89	24.12%
	156	82.98%	234	63.42%
Past due-				
Not defaulted less than 240 days	9	4.79%	23	6.23%
Default greater than 240 days but less than 2 years	11	5.85%	22	5.96%
Default greater than 2 years but less than 5 years	11	5.85%	23	6.23%
Default greater than 5 years	1	0.53%	67	18.16%
	32	17.02%	135	36.58%
Total Government Student Loan Program Receivable	188	100.00%	369	100.00%
Allowance for uncollectible loans	(104)		(27)	
Total Government Student Loan Program Receivable, Net	\$ 84		\$ 342	

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

**Notes to Consolidated Financial Statements
For the Year Ended May 31, 2021
(With Comparative Totals for the Year Ended May 31, 2020)**

Note 4 - Investments

University investments consisted of the following at May 31:

	(In Thousands)	
	2021	2020
Investments at fair value-		
Equity mutual funds	\$ 11,578	\$ 7,192
Common and preferred stocks	6,682	4,758
Bond mutual funds	560	199
Term loan certificates	1,217	1,575
Corporate bonds and notes	2,196	3,558
Government backed securities	1,585	1,308
Real estate funds	166	138
	<u>23,984</u>	<u>18,728</u>
Total investments at fair value	23,984	18,728
Investments at cost-		
Cash	349	424
	<u>349</u>	<u>424</u>
Total Investments	<u>\$ 24,333</u>	<u>\$ 19,152</u>

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

	(In Thousands)	
	2021	2020
Investments at fair value-		
Equity mutual funds	\$ 1,675	\$ 1,427
Bond mutual funds	1,463	1,514
Common stocks	501	405
Real estate funds	90	79
	<u>3,729</u>	<u>3,425</u>
Total investments at fair value	3,729	3,425
Investments at cost-		
Cash	76	112
Real estate	8	8
	<u>84</u>	<u>120</u>
Total investments at cost	84	120
Total Investments Held in Split Interest Agreements	<u>\$ 3,813</u>	<u>\$ 3,545</u>

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

Notes to Consolidated Financial Statements For the Year Ended May 31, 2021 (With Comparative Totals for the Year Ended May 31, 2020)

Note 4 - Continued

Dividends and interest are reported on the consolidated statement of activities and changes in net assets 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)	
	2021	2020
Operating return on investments, net	\$ 750	\$ 662
Nonoperating return on investments, net	4,609	(170)
Total Return on Investments, Net	\$ 5,359	\$ 492

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, 2021 and 2020.

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 based on face value plus accrued interest, which approximates fair value for these instruments that are not actively traded.

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

**Notes to Consolidated Financial Statements
For the Year Ended May 31, 2021
(With Comparative Totals for the Year Ended May 31, 2020)**

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, 2021:

	(In Thousands)		
	Level 1	Level 2	Total
University Investments			
Equity mutual funds-			
Large cap blend funds	\$ 6,137	\$ -	\$ 6,137
Mid cap blend funds	1,323		1,323
Small cap blend funds	1,835		1,835
International funds	1,416		1,416
Commodity funds	867		867
	<u>11,578</u>		<u>11,578</u>
Total equity mutual funds			11,578
Bond mutual funds	<u>560</u>		<u>560</u>
Total mutual funds	12,138		12,138
Common and preferred stocks	6,682		6,682
Real estate funds	166		166
Corporate bonds and notes		2,196	2,196
Term loan certificates		1,217	1,217
Government backed securities		<u>1,585</u>	<u>1,585</u>
Total Investments at Fair Value	<u><u>\$ 18,986</u></u>	<u><u>\$ 4,998</u></u>	<u><u>\$ 23,984</u></u>

There were no University investments classified as Level 3 at May 31, 2021.

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

**Notes to Consolidated Financial Statements
For the Year Ended May 31, 2021
(With Comparative Totals for the Year Ended May 31, 2020)**

Note 5 - Continued

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
	<u>7,192</u>		<u>7,192</u>
Total equity mutual funds			7,192
Bond mutual funds	<u>199</u>		<u>199</u>
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
	<u>12,287</u>	<u>6,441</u>	<u>18,728</u>
Total Investments at Fair Value	<u>\$ 12,287</u>	<u>\$ 6,441</u>	<u>\$ 18,728</u>

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, 2021
(With Comparative Totals for the Year Ended May 31, 2020)**

Note 5 - Continued

Trust and annuity investment assets recorded at fair value on a recurring basis are as follows at May 31, 2021:

	(In Thousands)		
	Level 1	Level 3	Total
Assets Held in Charitable Remainder Trusts and Annuities			
Equity mutual funds-			
Large cap blend funds	\$ 722	\$ -	\$ 722
Mid cap blend funds	292		292
Small cap blend funds	128		128
International funds	533		533
	<u>1,675</u>		<u>1,675</u>
Total equity mutual funds			1,675
Bond mutual funds	<u>1,463</u>		<u>1,463</u>
Total mutual funds	3,138		3,138
Common stocks	501		501
Real estate funds	<u>90</u>		<u>90</u>
Total Trust and Annuity Investments at Fair Value	3,729		3,729
Beneficial Interest in Assets Held by Other Charities		<u>15</u>	<u>15</u>
Total Assets Held in Charitable Remainder Trusts and Annuities	\$ 3,729	\$ 15	\$ 3,744

There were no trust and annuity investments classified as Level 2 at May 31, 2021.

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

**Notes to Consolidated Financial Statements
For the Year Ended May 31, 2021
(With Comparative Totals for the Year Ended May 31, 2020)**

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
Assets 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 Investments at Fair Value	3,425		3,425
Beneficial Interest in Assets Held by Other Charities		14	14
Total Assets Held in Charitable Remainder Trusts and Annuities	\$ 3,425	\$ 14	\$ 3,439

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, 2021
(With Comparative Totals for the Year Ended May 31, 2020)**

Note 5 - Continued

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)	
	2021	2020
Beginning balance	\$ 14	\$ 15
Unrealized gain (loss)	1	(1)
Assets and Liabilities at Level 3, Net	\$ 15	\$ 14

Note 6 - Split Interest Agreements

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

	(In Thousands)	
	2021	2020
Split interest agreement investments (Note 4)-		
Charitable remainder trusts	\$ 3,628	\$ 3,290
Charitable gift annuities	185	255
Total split interest agreement investments	3,813	3,545
Beneficial interests in agreements held by AGF	15	14
Liabilities due under split interest agreements-		
Charitable remainder trusts	(2,137)	(2,158)
Charitable trust funds held for others	(347)	(238)
Charitable gift annuities	(130)	(157)
Total liabilities due under split interest agreements	(2,614)	(2,553)
Total Split Interest Agreement Net Assets	\$ 1,214	\$ 1,006

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

**Notes to Consolidated Financial Statements
For the Year Ended May 31, 2021
(With Comparative Totals for the Year Ended May 31, 2020)**

Note 6 - Continued

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

	(In Thousands)				
	Trusts	Annuities	Other	2021 Total	2020 Total
Change in assets-					
Return on investments	\$ 664	\$ 16	\$ 1	\$ 681	\$ (132)
Transfers out		(49)		(49)	268
Payments to trust beneficiaries or annuitants	(209)	(37)		(246)	(232)
Maturity of assets held	(112)			(112)	(233)
Change in liabilities-					
Change in actuarial liabilities, net	(339)	(10)		(349)	(231)
CRUT obligation maturity	37			37	100
Payments to trust beneficiaries or annuitants	209	37		246	232
Net Change During the Year	250	(43)	1	208	(228)
Total split interest net assets, beginning of year	894	98	14	1,006	1,234
Total Split Interest Net Assets, End of Year	\$ 1,144	\$ 55	\$ 15	\$ 1,214	\$ 1,006

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)	
	2021	2020
Land	\$ 3,318	\$ 3,308
Buildings and improvements	61,585	60,669
Equipment	10,004	10,051
Construction in progress	210	105
	75,117	74,133
Less accumulated depreciation and amortization	(32,612)	(30,814)
Property and Equipment, Net	\$ 42,505	\$ 43,319

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

**Notes to Consolidated Financial Statements
For the Year Ended May 31, 2021
(With Comparative Totals for the Year Ended May 31, 2020)**

Note 7 - Continued

Depreciation expense totaled \$2,493,000 and \$2,439,000 for the years ended May 31, 2021 and 2020, respectively.

Note 8 - Notes and Bonds Payable

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

	(In Thousands)	
	2021	2020
Unsecured notes payable to various churches, church associations, and church members of the Assemblies of God, interest rates from 1.75% to 3.60%, various maturities from 2021 to 2026 (Note 10).	\$ 2,044	\$ 2,256
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.	23,473	24,621
Taxable loan issued by HomeStreet Bank. The interest rate is fixed at 3.96% per annum and is subject to adjustment in September 2027. Principal and interest is paid monthly with final maturity on September 1, 2037.	2,141	2,232
Total Notes and Bonds Payable	27,658	29,109
Less portion due within one year	(1,829)	(1,799)
	25,829	27,310
Less unamortized bond issuance costs	(235)	(272)
Notes and Bonds Payable, Net	\$ 25,594	\$ 27,038

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 loan 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 loan, 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 loan rate multiplied by the difference of 1.00 minus HomeStreet's then effective corporate tax rate.

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

Notes to Consolidated Financial Statements For the Year Ended May 31, 2021 (With Comparative Totals for the Year Ended May 31, 2020)

Note 8 - Continued

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, 2021.

Principal maturities for notes and bonds payable are as follows:

For the Year Ending May 31,	<u>(In Thousands)</u>
2022	\$ 1,829
2023	1,532
2024	1,568
2025	1,960
2026	1,861
Thereafter	<u>18,908</u>
Total Long-Term Debt	<u>\$ 27,658</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 \$759,000 and \$797,000, for the years ended May 31, 2021 and 2020, 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 \$235,000 and \$272,000 as of May 31, 2021 and 2020, respectively.

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 \$687,000 and \$705,000 for the years ended May 31, 2021 and 2020, 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 \$2,044,000 and \$2,256,000 at May 31, 2021 and 2020, respectively. The University paid \$60,000 and \$62,000 in interest to these organizations and members.

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

**Notes to Consolidated Financial Statements
For the Year Ended May 31, 2021
(With Comparative Totals for the Year Ended May 31, 2020)**

Note 10 - Continued

AGF manages various cash and investments of the University totaling approximately \$5,453,000 and \$2,597,000 at May 31, 2021 and 2020, 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 \$15,000 and \$14,000 at May 31, 2021 and 2020, respectively (Note 6).

Note 11 - Net Assets Without Donor Restrictions

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

	(In Thousands)	
	2021	2020
Undesignated	\$ 29,964	\$ 27,873
Board-designated quasi-endowment	3,838	3,187
Board-designated research and development	3,000	
Capital projects	450	450
Total Net Assets Without Donor Restrictions	\$ 37,252	\$ 31,510

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 and \$3,000,000 for strategic investment in new programs.

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

**Notes to Consolidated Financial Statements
For the Year Ended May 31, 2021
(With Comparative Totals for the Year Ended May 31, 2020)**

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)	
	2021	2020
Subject to the Passage of Time or Expenditure for Specified Purpose-		
Charitable remainder trusts, time restricted	\$ 806	\$ 618
Beneficial interests in agreements held by AGF	4	4
Accumulated earnings on endowments (Note 13)	1,931	897
Contributions restricted for other specific purposes:		
New program start-up costs	15	78
President special projects	11	1
Capital campaign projects	793	641
Specific grants for research purposes	1,320	369
Specific scholarship funds	220	204
Benevolence	108	121
International short-term summer camp scholarships	103	53
Total subject to the passage of time or expenditure for specified purpose	5,311	2,986
Subject to Restrictions in Perpetuity-		
Charitable remainder trusts	338	275
Beneficial interests in agreements held by AGF	11	10
Endowments (Note 13)	5,728	5,521
Total subject to the restrictions in perpetuity	6,077	5,806
Total Net Assets With Donor Restrictions	\$ 11,388	\$ 8,792

Note 13 - Endowment Funds

The University's endowment consists of 100 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, 2021
(With Comparative Totals for the Year Ended May 31, 2020)**

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	2021 Total	2020 Total
Donor restricted endowment funds	\$ -	\$ 7,659	\$ 7,659	\$ 6,418
Board designated endowment funds	3,838		3,838	3,187
Total Endowment Net Assets	\$ 3,838	\$ 7,659	\$ 11,497	\$ 9,605

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

	(In Thousands)			
	Without Donor Restrictions	With Donor Restrictions	2021 Total	2020 Total
Endowment net assets, beginning of year	\$ 3,187	\$ 6,418	\$ 9,605	\$ 8,968
Endowment investment return	320	1,205	1,525	212
Endowment contributions		207	207	604
Transfer to endowments	339		339	7
Appropriation of endowment for expenditure	(8)	(171)	(179)	(186)
Endowment Net Assets, End of Year	\$ 3,838	\$ 7,659	\$ 11,497	\$ 9,605

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

Notes to Consolidated Financial Statements For the Year Ended May 31, 2021 (With Comparative Totals for the Year Ended May 31, 2020)

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. There were no endowment deficiencies at May 31, 2021. 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.

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. During the year ended May 31, 2021, the University entered into a rental agreement to provide additional housing to de-densify housing due to COVID-19. Lease payments for copiers, printers, and office space, and COVID housing facilities were recorded as expense in the amounts of \$881,000 and \$148,000 for the years ended May 31, 2021 and 2020, respectively.

Future minimum lease payments are as follows:

For the Year Ending May 31,	(In Thousands)
2022	\$ 110
2023	68
2024	62
Total Lease Payments	\$ 240

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

Notes to Consolidated Financial Statements For the Year Ended May 31, 2021 (With Comparative Totals for the Year Ended May 31, 2020)

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. One lease was amended in May 2021 to begin in July 2021 and terminate in December 2022. A second lease was extended in February 2021 to begin in August 2021 and terminate in September 2026. Rental revenue was \$163,000 and \$175,000 for the years ended May 31, 2021 and 2020, respectively.

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

For the Year Ending May 31,	<u>(In Thousands)</u>
2022	\$ 119
2023	117
2024	98
2025	101
2026	104
Thereafter	<u>35</u>
Future Minimum Rental Receipts	<u>\$ 574</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.

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

**Notes to Consolidated Financial Statements
For the Year Ended May 31, 2021
(With Comparative Totals for the Year Ended May 31, 2020)**

Note 16 - Continued

Balances in cash, money market and certificates of deposit accounts are as follows at May 31:

	(In Thousands)	
	2021	2020
Cash and cash equivalents	\$ 12,253	\$ 8,924
Term loan certificates - 1 year maturity	763	390
Term loan certificates - 2 year maturity		610
Term loan certificates - 3 year maturity	454	575
Total	\$ 13,470	\$ 10,499

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. Cash and cash equivalents, government student loan program, is not included in the above table.

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 consolidated statement of financial position, consisted of the following as of May 31:

	(In Thousands)	
	2021	2020
Cash and cash equivalents	\$ 12,253	\$ 8,924
Accounts receivable	141	287
Student accounts receivable, net	953	1,401
Pledges receivable, net, current portion	62	49
Notes receivable, current portion	10	23
Investments	24,333	19,152
	37,752	29,836
Contractual or donor-imposed restrictions-		
Endowment funds	(7,659)	(6,418)
Revolving note fund	(2,044)	(2,256)
Board designations-		
Quasi-endowment	(3,838)	(3,187)
Research and development	(3,000)	
Capital projects	(450)	(450)
Financial Assets Available to Meet Cash Needs for General Operating Expenditures Within One Year	\$ 20,761	\$ 17,525

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

Notes to Consolidated Financial Statements For the Year Ended May 31, 2021 (With Comparative Totals for the Year Ended May 31, 2020)

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) in March 2020. 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 for the institution.

During the year ended 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.

In December 2020, the U.S. Congress passed the second aid package in the form of the Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA), which included additional funds for Higher Education. The grant was in two portions: \$1,500,000 to the University for institutional assistance, and \$538,000 for additional student aid. The aid was disbursed to students with exceptional need and who met the following criteria:

- Currently enrolled for Spring 2021 as a degree seeking student;
- A U.S. Citizen; an eligible non-citizen;
- Filed a 2020-2021 FAFSA;
- Had a FAFSA Expected Family Contribution between \$0 to \$5,711.

There were 639 students who received a grant award ranging from \$169 to \$1,014. The institutional portion was used to offset lost revenue and costs associated with the significant changes to the delivery of instruction due to COVID-19.

In March 2021, the U.S. Congress passed the third aid package in the form of the American Recovery Plan (ARP), which included additional funds for Higher Education. The grant award included two portions, one for student aid and one for institutional aid. The grants was in two portions: \$1,712,000 to the University for institutional assistance, and \$1,897,000 for additional student aid. Due to the ARP award occurring in May 2021, near the University’s fiscal year end, there were no drawdowns taken before May 31, 2021.

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 \$630,000 and \$158,000 at May 31, 2021 and 2020, respectively.

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

**Notes to Consolidated Financial Statements
For the Year Ended May 31, 2021
(With Comparative Totals for the Year Ended May 31, 2020)**

Note 17 - Continued

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, 2021.

SUPPLEMENTARY INFORMATION

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION
Consolidating Schedule of Financial Position - Assets
May 31, 2021
(With Comparative Totals for May 31, 2020)
(In Thousands)

	University	Foundation	2021 Consolidated Total	2020 Consolidated Total
Assets				
Current Assets:				
Cash and cash equivalents	\$ 11,622	\$ 631	\$ 12,253	\$ 8,924
Cash and cash equivalents, government student loan program	88		88	107
Prepaid expenses	605		605	434
Accounts receivable	141		141	287
Student accounts receivable, net	953		953	1,401
Pledge receivable, net, current portion	62		62	49
Notes receivable, current portion		10	10	23
Total Current Assets	13,471	641	14,112	11,225
Pledges receivable, net of current portion	117		117	167
Notes receivable, net of current portion		226	226	252
Government student loan program receivable, net	84		84	342
Asset held for sale				390
Capitalized lease costs, net	26		26	7
Investments	11,518	12,815	24,333	19,152
Investments held in split interest agreements	185	3,628	3,813	3,545
Beneficial interest in assets held by other charities		15	15	14
Property and equipment, net	42,505		42,505	43,319
Total Assets	\$ 67,906	\$ 17,325	\$ 85,231	\$ 78,413

See independent auditor's report.

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION
Consolidating Schedule of Financial Position - Liabilities and Net Assets
May 31, 2021
(With Comparative Totals for May 31, 2020)
(In Thousands)

	University	Foundation	2021 Consolidated Total	2020 Consolidated Total
Liabilities and Net Assets				
Current Liabilities:				
Accounts payable and accrued expenses	\$ 3,757	\$ -	\$ 3,757	\$ 3,548
Student deposits	443		443	599
Deferred revenue	2,026		2,026	2,067
Notes and bonds payable, current portion	1,272	557	1,829	1,799
Total Current Liabilities	7,498	557	8,055	8,013
Notes and bonds payable, net of current portion and unamortized bond fees	24,107	1,487	25,594	27,038
Split interest agreement obligations	130	2,484	2,614	2,553
Government student loan program	173		173	352
Asset retirement obligations	155		155	155
Total Liabilities	32,063	4,528	36,591	38,111
Net Assets:				
Without donor restrictions	33,432	3,820	37,252	31,510
With donor restrictions	2,411	8,977	11,388	8,792
Total Net Assets	35,843	12,797	48,640	40,302
Total Liabilities and Net Assets	\$ 67,906	\$ 17,325	\$ 85,231	\$ 78,413

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, 2021
(With Comparative Totals for the Year Ended May 31, 2020)
(In Thousands)

	University			Foundation			2021 Consolidated Total	2020 Consolidated Total
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total		
Operating Revenue and Support:								
Tuition and fees	\$ 41,401	\$ -	\$ 41,401	\$ -	\$ -	\$ -	\$ 41,401	\$ 43,955
Less student assistance	(14,250)		(14,250)				(14,250)	(14,850)
	27,151		27,151				27,151	29,105
Sales and services of auxiliary enterprises	5,351		5,351				5,351	6,165
Government grants	2,357		2,357				2,357	1,313
Private gifts and grants	1,757	1,512	3,269		247	247	3,516	3,152
Operating return on investments, net	476		476	95	179	274	750	662
Other income	355		355				355	616
Support from Foundation to University	266	390	656	(266)	(390)	(656)		
Net assets released from restrictions	438	(438)		256	(256)			
Total Operating Revenue and Support	38,151	1,464	39,615	85	(220)	(135)	39,480	41,013
Operating Expenses:								
Program services	28,441		28,441				28,441	29,995
Institutional support	6,793		6,793	61		61	6,854	7,370
Fundraising	788		788				788	974
Total Operating Expenses	36,022		36,022	61		61	36,083	38,339
Change in Net Assets From Operations	2,129	1,464	3,593	24	(220)	(196)	3,397	2,674
Nonoperating Activities:								
Nonoperating return on investments, net	3,312		3,312	270	1,027	1,297	4,609	(170)
Change in value of split interest agreements	7		7		325	325	332	(131)
Change in Net Assets	5,448	1,464	6,912	294	1,132	1,426	8,338	2,373
Net assets, beginning of year	27,984	947	28,931	3,526	7,845	11,371	40,302	37,929
Net Assets, End of Year	\$ 33,432	\$ 2,411	\$ 35,843	\$ 3,820	\$ 8,977	\$ 12,797	\$ 48,640	\$ 40,302

See independent auditor's report.