

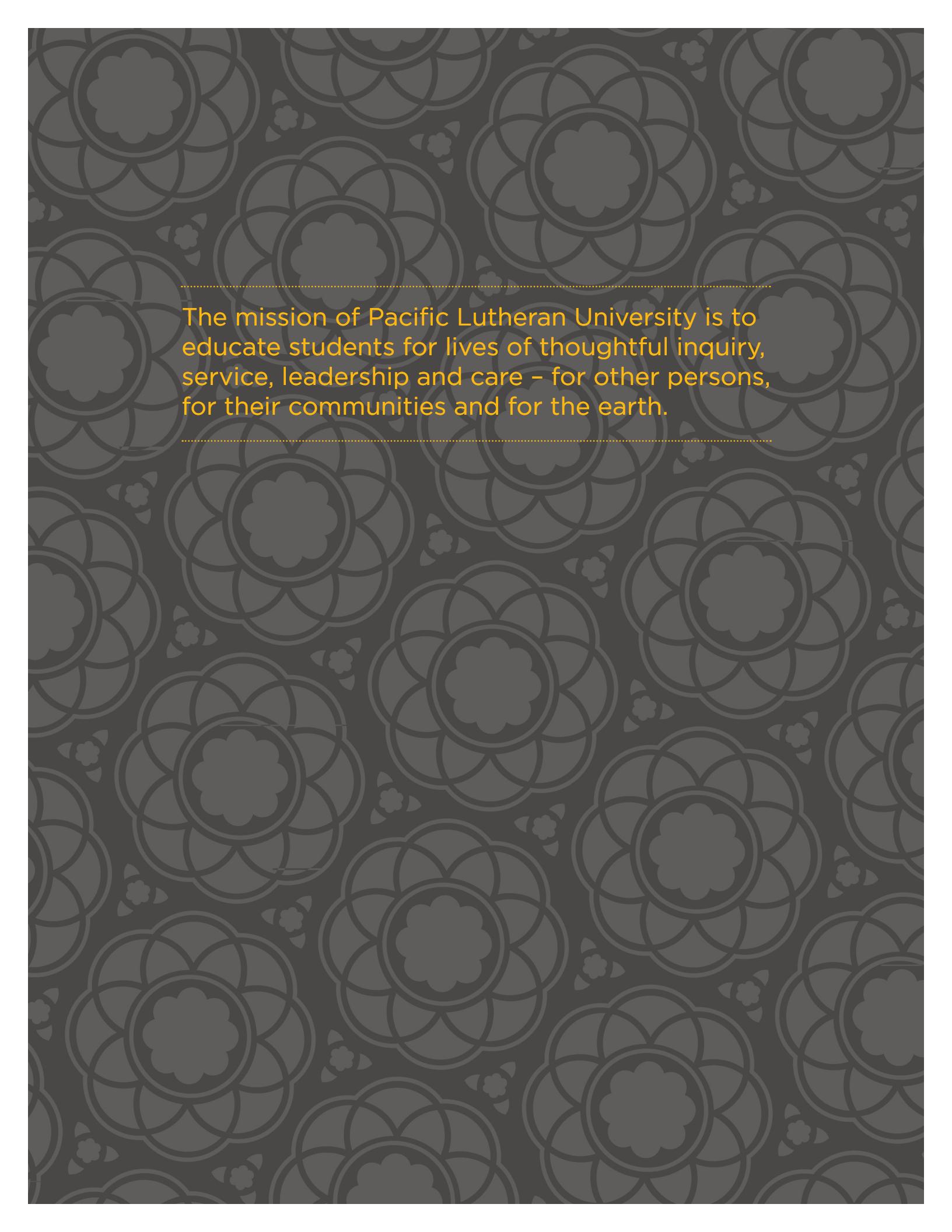


# AUDITED FINANCIAL STATEMENTS

Year Ended May 31, 2019 and Summarized Information for May 31, 2018



**PLU** PACIFIC  
LUTHERAN  
UNIVERSITY



The mission of Pacific Lutheran University is to educate students for lives of thoughtful inquiry, service, leadership and care – for other persons, for their communities and for the earth.

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## Report of Independent Auditors

To the Board of Regents  
Pacific Lutheran University

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Pacific Lutheran University (the University, which comprise the statement of financial position as of May 31, 2019, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

#### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### ***Auditor's Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pacific Lutheran University as of May 31, 2019, 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.

### **Report on Summarized Comparative Information**

We have previously audited the University's 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 5, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended May 31, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

### **Other Matters**

#### *Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The *schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2019, on our consideration of Pacific Lutheran University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Pacific Lutheran University's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Pacific Lutheran University's internal control over financial reporting and compliance.

*Moss Adams LLP*

Yakima, Washington  
October 18, 2019

**Pacific Lutheran University**  
**Statements of Financial Position (in thousands)**

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ASSETS	May 31,	
	2019	2018
Cash and cash equivalents	\$ 3,404	\$ 2,114
Student receivables, net	1,134	1,893
Grants and other receivables	2,078	2,281
Inventories and prepaid expenses	1,404	1,199
Contributions receivable, net	1,962	1,391
Student loans receivable, net	6,021	6,717
Investments	94,500	98,909
Fair value of interest rate swap	671	2,288
Assets held under split interest agreements	10,204	12,329
Reserve for bond payments	1,441	1,441
Property, plant, and equipment, net	118,280	119,733
Total assets	<u>\$ 241,099</u>	<u>\$ 250,295</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued liabilities	\$ 8,208	\$ 8,383
Long-term debt	55,683	56,988
Student deposits	2,041	2,180
Government grants refundable	8,262	8,104
Liabilities under split-interest agreements	5,564	6,724
Other liabilities	1,577	1,527
Total liabilities	<u>81,335</u>	<u>83,906</u>
NET ASSETS		
Net assets without donor restrictions	71,135	72,885
Net assets with donor restrictions	88,629	93,504
TOTAL NET ASSETS	<u>159,764</u>	<u>166,389</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 241,099</u>	<u>\$ 250,295</u>

**Pacific Lutheran University**  
**Statement of Activities (in thousands)**

	Without Donor Restrictions	With Donor Restrictions	Totals for the Years Ended May 31,	
			2019	2018
<b>REVENUES, GAINS, AND OTHER SUPPORT</b>				
Tuition and fees	\$ 124,362	\$ -	\$ 124,362	\$ 118,207
Less student financial aid	<u>(63,939)</u>	<u>-</u>	<u>(63,939)</u>	<u>(58,108)</u>
	60,423	-	60,423	60,099
Sales and services of auxiliary services	16,394	-	16,394	16,190
Grants	411	1,837	2,248	2,064
Contributions	4,094	4,171	8,265	7,931
Other investment income	68	1,903	1,971	6,561
Change in value of split-interest agreements	(352)	(547)	(899)	24
Other revenue	<u>970</u>	<u>-</u>	<u>970</u>	<u>1,174</u>
	82,008	7,364	89,372	94,043
Net assets released from restrictions	<u>9,560</u>	<u>(9,560)</u>	<u>-</u>	<u>-</u>
	91,568	(2,196)	89,372	94,043
<b>EXPENSES</b>				
Instruction	35,097	-	35,097	34,110
Public service	1,603	-	1,603	881
Academic support	5,372	-	5,372	4,637
Student services	10,900	-	10,900	11,099
Institutional support	16,441	-	16,441	17,446
Auxiliary enterprises	9,073	-	9,073	8,795
Allocated expenses	<u>15,894</u>	<u>-</u>	<u>15,894</u>	<u>16,095</u>
	94,380	-	94,380	93,063
<b>NONOPERATING ACTIVITY - OTHER CHANGES IN NET ASSETS</b>				
Reclassification of net assets	2,679	(2,679)	-	-
Loss on interest rate SWAP	<u>(1,617)</u>	<u>-</u>	<u>(1,617)</u>	<u>1,176</u>
CHANGE IN NET ASSETS	(1,750)	(4,875)	(6,625)	2,156
NET ASSETS, beginning of year	<u>72,885</u>	<u>93,504</u>	<u>166,389</u>	<u>164,233</u>
NET ASSETS, end of year	<u>\$ 71,135</u>	<u>\$ 88,629</u>	<u>\$ 159,764</u>	<u>\$ 166,389</u>

**Pacific Lutheran University**  
**Statements of Cash Flows (in thousands)**

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	Year Ended May 31,	
	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (6,625)	\$ 2,156
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	5,378	5,329
Accretion	56	53
Amortization	30	25
Provision for doubtful student accounts and pledges	19	(115)
Net realized and unrealized (gain) loss on investments	860	(6,582)
Change in value of split interest agreements	1,703	(170)
Unrealized (gain) loss on interest rate swaps	1,617	(1,176)
Contributions to net assets with donor restrictions	(4,171)	(4,660)
Gain on disposal of plant assets	9	5
Increase (decrease) in cash due to changes in assets and liabilities		
Student accounts receivable	739	(910)
Grants and other receivables	203	331
Inventories, prepaid expense, and deposits	(205)	223
Contributions receivable	(625)	(124)
Accounts payable, accrued liabilities, and other liabilities	(181)	(836)
Student deposits	(139)	137
Government grants refundable	158	126
Net cash from operating activities	<u>(1,174)</u>	<u>(6,188)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of investments	(28,410)	(114,945)
Proceeds from sale of investments	31,960	118,497
Purchase of land, buildings, and equipment	(3,934)	(2,571)
Net change in student loans receivable	<u>751</u>	<u>65</u>
Net cash from investing activities	<u>367</u>	<u>1,046</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on long-term debt	(1,336)	(1,299)
Contributions to net assets with donor restrictions	4,171	4,660
Annuity payments and other	<u>(738)</u>	<u>(226)</u>
Net cash from financing activities	<u>2,097</u>	<u>3,135</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,290	(2,007)
CASH AND CASH EQUIVALENTS, beginning of year	<u>2,114</u>	<u>4,121</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 3,404</u>	<u>\$ 2,114</u>

# **Pacific Lutheran University**

## **Notes to Financial Statements (dollars in thousands)**

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### **Note 1 – Organization**

Pacific Lutheran University (the University) is a private nonprofit institution based in Tacoma, Washington, that offers a full range of liberal arts academic programs to undergraduate and graduate students. Affiliated with the Evangelical Lutheran Church in America, the University enrolls approximately 3,100 students. The University offers 43 majors and 51 minors, as well as graduate and professional programs in business administration, creative writing, education, finance, marketing research, marriage and family therapy, and nursing.

### **Note 2 – Summary of Significant Accounting Policies**

**Basis of accounting** – The accounting policies of the University reflect practices common to colleges and universities and conform to accounting principles generally accepted in the United States of America. The more significant accounting policies are summarized below.

**Use of estimates** – The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Cash and cash equivalents** – Cash and cash equivalents consist of short-term, highly liquid investments with an original maturity of three months or less, except for those held for long-term investment. Certain cash held by the University is restricted for the Federal Perkins and Nursing Loan Funds. The University's cash balances exceed Federal Deposit Insurance Corporation (FDIC) and Securities Investor Protection Corporation (SIPC) insured amounts at times. The University has not experienced any significant losses on its cash investments.

**Student accounts receivable** – Student accounts receivable are carried at the unpaid balance of the original amount billed to students less an allowance for doubtful accounts. Management determines the sufficiency of the allowance based on the length of time past due and historical experience. Student accounts are written off when all means of collection has been exhausted and collection is deemed unlikely.

**Investments** – Investments are stated at fair value (Note 3). Whenever available, quotations from organized securities exchanges are used as the basis for fair value. For investments not traded on organized exchanges, fair value estimates are provided by investment managers. Real estate held for investment is recorded at estimated fair value based on appraisals or other reliable documentation.

Alternative investments are investments for which there is no readily determinable published value. The University is in the process of liquidating its alternative investment portfolio as opportunities become available. It is the University's strategy to have a balanced portfolio of equities, fixed assets and real estate.

**Pacific Lutheran University**  
**Notes to Financial Statements (dollars in thousands)**

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**Note 2 – Summary of Significant Accounting Policies (continued)**

**Inventories** – Bookstore inventories are valued at a percentage of retail value, which approximates cost and is not in excess of market.

**Bond proceeds restricted for capital projects** – Bond proceeds held by trustee include amounts restricted for debt service as required by the trust indentures.

**Bond issuance costs** – Costs of bond issuance are deferred and amortized over the term of the related indebtedness and recorded as a charge against long-term debt.

**Property, plant, and equipment** – Physical plant assets are stated at cost at date of acquisition less accumulated depreciation. The University depreciates its assets on a straight-line basis over estimated useful lives as follows: buildings and building improvements, 10 to 50 years; improvements other than buildings, 10 years; library books, 15 years; equipment, 10 years; and leasehold improvements, 15 years. Normal repair and maintenance expenses are charged to operations as incurred.

The University capitalizes asset additions in excess of \$5.

**Impairment of long-lived assets** – The University reviews long-lived assets, including property and equipment and intangible assets, for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss would be recognized when the estimated future cash flows from the use of the asset are less than the carrying amount of that asset. To date, there have been no such losses.

**Fair value measurements** – The Fair Value Measurements and Disclosures Topic of the Financial Accounting Standards Board's (FASB) Accounting Standards Codification defines fair value, establishes a framework for measuring fair value, and expands disclosure of fair value measurements, which applies to all assets and liabilities that are measured and reported on a fair value basis. See Note 3 for additional information.

**Asset retirement obligations** – The University recognizes the fair value of a liability for legal obligations associated with asset retirements under other liabilities on the Statement of Financial Position in the period in which it is incurred, if a reasonable estimate of the fair value of the obligation can be made.

Substantially all of the University's asset retirement obligations relate to estimated costs to remove asbestos from campus facilities. The estimate of the losses that are probable for asbestos removal was calculated using the expected cash flow approach and based on an inventory of the University's long-lived assets combined with an estimate of the current market prices to remove the asbestos. The University utilized a credit-adjusted risk-free rate to discount the asset retirement obligation.

**Pacific Lutheran University**  
**Notes to Financial Statements (dollars in thousands)**

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**Note 2 – Summary of Significant Accounting Policies (continued)**

Changes in the accrual for asset retirement obligations reflected in other liabilities on the statement of financial position for the years ended May 31, 2019 and 2018, are as follows:

	<u>2019</u>	<u>2018</u>
Balance, beginning of year	\$ 1,115	\$ 1,062
Accretion expense	<u>56</u>	<u>53</u>
Balance, end of year	<u><u>\$ 1,171</u></u>	<u><u>\$ 1,115</u></u>

**Government grants refundable** – Historically, funds provided by the United States Government under the Federal Perkins and Nursing Loan Programs are loaned to qualified students and may be reloaned after collections. The Federal Perkins Loan Program was discontinued during the prior fiscal year and the University will not be extending any further funds from this program. There is a 10-year period for the University to collect on these loans, but it is unclear at this time when the Federal Government is going to require Universities to repay the outstanding loans with the federal government. These funds are ultimately refundable to the government and are included as liabilities in the statements of financial position.

**Income tax status** – The Internal Revenue Service has determined that the University is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, any unrelated business income may be subject to taxation.

The University follows the accounting standards for contingencies in evaluating uncertain tax positions. This guidance prescribes recognition threshold principles for the financial statement recognition of tax positions taken or expected to be taken on a tax return that are not certain to be realized. No liability has been recognized by the University for uncertain tax positions as of May 31, 2019 and 2018. The University's tax returns are subject to review and examination by federal authorities.

**Financial statement presentation** – The University reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. Net assets of the University and changes therein are classified and reported as follows:

*Net assets without donor restrictions* – Net assets that are not subject to donor-imposed stipulations.

*Net assets with donor restrictions* – Net assets subject to donor-imposed stipulations that will be met by action of the University and/or the passage of time, or in perpetuity. Generally, the donors of these assets permit the University to use all or part of the income and gains earned on related investment for general or specific purposes.

**Pacific Lutheran University**  
**Notes to Financial Statements (dollars in thousands)**

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**Note 2 – Summary of Significant Accounting Policies (continued)**

**Prior year summarized information** – The statement of activities includes comparative summarized information for the year ended May 31, 2018. Such information does not include sufficient detail by net asset class to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the university's financial statements for the year ended May 31, 2018, from which the summarized information was derived.

**Releases from restrictions** – Expirations of restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed and the law allows the release of the restriction) are reported on the statement of activities as net assets released from restrictions. Occasionally donor restrictions related to net assets may be clarified or changed, at which time they are reflected as reclassification of prior year net assets on the statement of activities.

**Tuition and fees** – Student tuition and fees are recorded as revenue on a ratable basis over the term of instruction. The majority of the University's students rely on funds received from various federal financial aid programs under Title IV of the Higher Education Act of 1965, as amended, to pay for a substantial portion of their tuition. These programs are subject to periodic review by the United States Department of Education (USDE). Disbursements under each program are subject to disallowance by the USDE and repayment by the University. In addition, as an educational institution, the University is subject to licensure from various accrediting and state authorities and other regulatory requirements of the USDE.

**Auxiliary enterprises** – Auxiliary enterprises consist of revenues and expenses relating to the operation of the residence halls, food services, bookstore, and the rental of facilities. Revenues from auxiliary enterprises are recorded at the time the related services are provided.

**Other revenue and expenses** – Revenues from sources other than contributions are generally reported as increases in net assets without donor restrictions. Expenses are reported as decreases in net assets without donor restrictions. Income earned on donor-restricted funds is initially classified as net assets with donor restrictions and is reclassified as net assets without donor restrictions when expenses are incurred for the intended purpose.

**Contributions** – Contributions, including unconditional promises to give, are recognized as revenues in the period received and are reported as increases in the appropriate categories of net assets in accordance with donor restrictions. Contributions received whose donor-imposed restrictions are met within the same reporting period are reported as increases in net assets without donor restrictions.

Expirations of restrictions on net assets with donor restrictions are reported as net assets released from restrictions between the applicable classes of net assets. Conditional promises to give are recognized when the donor-imposed conditions are substantially met.

Unconditional promises to give, due after one year, are reported at the present value of net realizable value, using appropriate interest rates applicable to the years in which the promises were received. Amortization of discounts is recorded as an additional contribution, if any.

# **Pacific Lutheran University**

## **Notes to Financial Statements (dollars in thousands)**

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### **Note 2 – Summary of Significant Accounting Policies (continued)**

Contributions of property and equipment without donor stipulations concerning the use of such long-lived assets are reported as revenues without donor restrictions. Contributions of cash or other assets to be used to acquire property and equipment are reported as revenues with donor restrictions; the restrictions are considered to be released at the time such long-lived assets are placed in service.

**Grant revenue** – Revenues from other government grants are recognized as they are earned in accordance with the agreement. Any funding received before it is earned is recorded as a refundable advance. Expenses incurred before cash is received are recorded as receivables.

**Investment gains and losses** – Income from gains and losses are shown net of external and direct internal expenses on investments of endowment and similar funds and are reported as follows:

- Increases or decreases in net assets with donor restrictions if the terms of the gift or the University's interpretation of relevant state law requires they be added to the principal of a net asset with donor restrictions.
- Increases or decreases in net assets with donor restrictions if the terms of the gift impose restrictions on the use of the income.
- Increases or decreases in net assets without donor restrictions in all other cases.

**Retirement plans** – The University has a defined contribution retirement plan for academic and nonacademic personnel. Individual contributions are based on a percentage of compensation. The University's contribution rate was 7.5% as of May 31, 2019 and 2018, resulting in total contributions of approximately \$3,572 and \$3,580 for 2019 and 2018, respectively.

**Grants to specified students** – Amounts received from state and federal agencies designated for the benefit of specified students are considered agency transactions and, therefore, are not reflected as revenues and expenses of the University.

**Fundraising and advertising expenses** – Fund-raising expenses totaled \$2,698 and \$2,758 for the years ended May 31, 2019 and 2018, respectively. Advertising costs are expensed when incurred.

**Functional allocation of expenses** – The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. The analysis of expense by functional and natural categories presents the natural classification detail of expense by function. Accordingly, certain expenses have been allocated among the programs and supporting services benefited. Allocated expenses include salaries, benefits, and general and administrative activities. The functional allocation was based on each activity's *pro rata* share of on campus square footage. Other costs are classified in each functional category based on the underlying purpose of each transaction.

**Reclassification** – Certain amounts from the prior year statement of net assets available for benefits have been reclassified, in order to conform to the current year presentation.

**Pacific Lutheran University**  
**Notes to Financial Statements (dollars in thousands)**

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**Note 2 – Summary of Significant Accounting Policies (continued)**

**Recent accounting pronouncements – Revenue from Contracts with Customers:** The University adopted ASU 2014-09 – *Revenue from Contracts with Customers* (Topic 606) during the year ended May 31, 2019. This guidance requires an entity to recognize revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The University's revenue is derived primarily from academic programs taught to students. 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.

The University used the modified retrospective method applied to contracts that have remaining obligations as of June 1, 2018. Under this approach, the University did not restate comparative periods in the financial statements.

**Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made:** The University adopted ASU 2018-08 – *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* during the year ended May 31, 2019. The ASU provides a more robust framework for determining whether a transaction should be accounted for as a contribution or as an exchange transaction. The guidance also helps determine whether a contribution is conditional and better distinguishes a donor-imposed condition from a donor-imposed restriction. The adoption did not result in a material change to how the University accounts for revenue from contributions, grants and contracts.

**Note 3 – Fair Value Measurements**

U.S. GAAP defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. To increase consistency and comparability in fair value measurements, U.S. GAAP uses a fair value hierarchy that prioritizes the inputs to valuation approaches into three broad levels. The hierarchy gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable inputs (Level 3).

Financial instruments measured and reported at fair value are classified and disclosed in one of the following three categories.

**Level 1** – Quoted prices in active markets for identical assets or liabilities.

**Level 2** – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices 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.

**Level 3** – Prices or valuations that require using significant unobservable inputs in determining fair value. The inputs into the determination of fair value require significant judgment or estimation. The use of either the market approach, which generally consists of using comparable market transactions, or the income approach which generally consists of the net present value of estimated future cash flows, adjusted as appropriate for liquidity, credit, market and/or other risk factors.

# **Pacific Lutheran University**

## **Notes to Financial Statements (dollars in thousands)**

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### **Note 3 – Fair Value Measurements (continued)**

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at May 31, 2019 and 2018.

*Mutual and commodity funds:* Valued at the daily closing price as reported by the fund. Mutual funds held by the University are open-end mutual funds that are registered with the U.S. Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price.

*Short-term investments:* Primarily consist of money market funds for which quoted prices are not readily available. The fair values are estimated using Level 2 inputs based on multiple sources of information, which may include market data and/or quoted market prices from either market that, are not active or are for the same or similar assets in active markets.

*Reserve for bond payment:* Valued at the daily closing price as reported by the fund. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The funds held by the University are deemed to be actively traded.

*Investments in real estate:* Determined by the market approach using appraised values, property tax assessments and other information for similar assets.

*Hedge funds, private equity funds, and funds of funds:* Quoted prices are not readily available and funds cannot be redeemed within a short period of time. The University has estimated the fair value of these funds using the NAV provided by the investee as of the most recent date, adjusted for cash receipts, cash disbursements, and significant known valuation changes in market values of publicly held securities contained in the portfolio and security distributions through May 31, 2019 and 2018.

*Perpetual trusts held by others:* Estimate of fair value is based on fair value of underlying investments of the University's proportionate interest in the trusts based on level 3 information received from trustees. Trust assets consist of, but are not limited to, cash and cash equivalents, corporate and government bonds, mutual funds and equity securities. These assets are not subject to control or direction by the University.

*Interest rate swap:* The fair value of the interest rate swap is calculated and reported by the issuing bank as the present value of the difference between the fixed-rate payments to be made by the University and the variable rate payments to be received by the University under the terms of the swap. The fixed-rate payments are known, and the variable-rate payments are estimated based on the market yield curve that are observable or that can be corroborated by market data and, therefore, is classified within Level 2 of the valuation hierarchy.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability. While the University believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

**Pacific Lutheran University**  
**Notes to Financial Statements (dollars in thousands)**

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**Note 3 – Fair Value Measurements (continued)**

Fair values of assets and liabilities measured on a recurring basis were as follows:

	Fair Value Measurements at May 31, 2019					<b>Total</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>			
<b>ASSETS</b>						
Short-term investments	\$ -	\$ 367	\$ -			\$ 367
Mutual funds						
Domestic equity funds	8,355	-	-			8,355
International equity funds	1,918	-	-			1,918
Global fixed income funds	3,069	591	-			3,660
Index funds	33,467	-	-			33,467
U.S. government bond funds	-	1,096	-			1,096
Corporate bond funds	13,617	1,383	-			15,000
High yield bond funds	-	225	-			225
Real estate funds	1,648	-	-			1,648
Commodity funds	11,711	-	-			11,711
Investments in real estate	-	10,289	-			10,289
Perpetual trusts held by others	-	-	12,492			12,492
Reserve for bond payment	1,441	-	-			1,441
Interest rate swap	-	671	-			671
Total assets in the fair value hierarchy	<u>\$ 75,226</u>	<u>\$ 14,622</u>	<u>\$ 12,492</u>			102,340
Investments measured at NAV (practical expedient)						<u>1,082</u>
						<u>\$ 103,422</u>

The following table presents a reconciliation of the statement of financial position amounts for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended May 31, 2019:

	<b>Balance May 31, 2018</b>	<b>Net Realized and Unrealized Losses</b>			<b>Balance May 31, 2019</b>
		<b>Purchases</b>	<b>Sales</b>		
<b>Assets</b>					
Perpetual trusts held by endowment	<u>\$ 12,573</u>	<u>\$ (81)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,492</u>

Total gains and losses are included in the statement of activities for the year ended May 31, 2019.

**Pacific Lutheran University**  
**Notes to Financial Statements (dollars in thousands)**

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**Note 3 – Fair Value Measurements (continued)**

Fair values of assets and liabilities measured on a recurring basis were as follows:

	Fair Value Measurements at May 31, 2018				
	Level 1	Level 2	Level 3	Total	
<b>ASSETS</b>					
Short-term investments	\$ -	\$ 1,404	\$ -	\$ 1,404	
Mutual funds					
Domestic equity funds	4,003	-	-	-	4,003
International equity funds	2,329	-	-	-	2,329
Global fixed income funds	19,313	736	-	-	20,049
Index funds	47,659	-	-	-	47,659
U.S. government bond funds	-	1,218	-	-	1,218
Corporate bond funds	-	1,740	-	-	1,740
High yield bond funds	-	266	-	-	266
Real estate funds	1,671	-	-	-	1,671
Commodity funds	2,668	-	-	-	2,668
Investments in real estate	-	10,590	-	-	10,590
Perpetual trusts held by others	-	-	12,573	-	12,573
Reserve for bond payment	1,441	-	-	-	1,441
Interest rate swap	-	2,288	-	-	2,288
Total assets in the fair value hierarchy	<u>\$ 79,084</u>	<u>\$ 18,242</u>	<u>\$ 12,573</u>		<u>109,899</u>
Investments measured at NAV (practical expedient)					<u>1,527</u>
					<u>\$ 111,426</u>

The following table presents a reconciliation of the statement of financial position amounts for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended May 31, 2018:

	Balance May 31, 2017	Net Realized and Unrealized Gains			Balance May 31, 2018
		Purchases	Sales		
<b>Assets</b>					
Perpetual trusts held by endowment	<u>\$ 11,932</u>	<u>\$ 641</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,573</u>

Total gains and losses are included in the Statement of Activities for the year ended May 31, 2018.

The University has chosen to record its investments in real estate at fair value as a result of several properties reclassified as investments and the increase of assets shown as fair value are shown in the above table as transfers.

**Pacific Lutheran University**  
**Notes to Financial Statements (dollars in thousands)**

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**Note 3 – Fair Value Measurements (continued)**

The University uses the NAV as a practical expedient to determine fair value of all underlying investments which (a) do not have a readily determinable fair value, and (b) are in investment companies or similar entities that report their investment assets at fair values.

The following table lists the alternative investments in which NAV was utilized as the practical expedient for estimating fair value by major category as of May 31, 2019:

	Fair Value	Remaining Life	Unfunded Commitments	Redemption Terms	Redemption Restrictions
Hedge funds	\$ 24	N/A	None	Monthly to annual, 45 to 90 days' notice	Currently, there are no lock-ups in effect. Upon full redemption, 90% to 95% is returned, with the remaining 5% to 10% held back until the completion of the annual audit.
Private equity	\$ 751	1 to 12 years	\$ 775	3 to 5 years to draw	N/A
Funds of funds	\$ 307	N/A	None	Annual with 120 days' notice	1 year lock-up. Upon full redemption, 90% is returned, with the remaining 10% held back until the completion of the annual audit.

**Note 4 – Contributions Receivable**

Contributions receivable at May 31 include the following:

	2019	2018
Contributions	\$ 2,219	\$ 1,583
Less allowance for uncollectable contributions	(133)	(79)
Less unamortized discount	<u>(124)</u>	<u>(113)</u>
Net unconditional promises to give	<u><u>\$ 1,962</u></u>	<u><u>\$ 1,391</u></u>
Amounts due in		
Less than one year	\$ 390	
One to five years	1,618	
More than five years	<u>211</u>	
	<u><u>\$ 2,219</u></u>	

**Pacific Lutheran University**  
**Notes to Financial Statements (dollars in thousands)**

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**Note 4 – Contributions Receivable (continued)**

Contributions due in more than one year are discounted at interest rates that approximate the U.S. Daily Treasury Yield Curve at the date of the gift adjusted for a risk premium.

The discount rates for these contributions ranged from 1.57% to 3.00% at May 31, 2019 and 2018. Contributions due in less than one year were not discounted.

**Note 5 – Student Loans Receivable**

The University issues uncollateralized loans to students based on financial need. Student loans are funded through Federal government loan programs or institutional resources. Student loans receivable are carried at the amount of unpaid principal less an estimate for doubtful accounts. Allowances for doubtful accounts are established based on prior collection experience and current economic factors, which, in management's judgment, could influence the ability of loan recipients to repay the amounts per the loan terms.

At both May 31, 2019 and 2018, student loans represented approximately 3% of total assets.

At May 31, 2019 and 2018, student loans consisted of the following:

	<u>2019</u>	<u>2018</u>
Federal government programs	\$ 6,319	\$ 7,070
Less allowance for doubtful accounts		
Beginning of year	353	465
Decrease (increase) in allowance	<u>55</u>	<u>112</u>
End of year	<u>298</u>	<u>353</u>
Student loans receivable, net	<u>\$ 6,021</u>	<u>\$ 6,717</u>

Funds advanced by the Federal government of \$8,262 and \$8,104 as of May 31, 2019 and 2018, respectively, are ultimately refundable to the government and are classified as liabilities in the statement of financial position.

After a student is no longer enrolled in an institution of higher education and after a grace period, interest is charged on student loans receivable and is recognized as it is charged. Student loans receivable through the loan programs are considered to be past due if a payment is not made within 30 days of the payment due date, at which time, late charges are charged and recognized. The Federal Perkins and Nursing Loan Program receivables may be assigned to the U.S. Department of Education and U.S. Department of Health and Human Services, respectively. Students may be granted a deferment, forbearance, or cancellation of their student loan based on eligibility requirements defined by the U.S. Department of Education and U.S. Department of Health and Human Services.

**Pacific Lutheran University**  
**Notes to Financial Statements (dollars in thousands)**

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**Note 5 – Student Loans Receivable (continued)**

A student loan receivable is considered to be delinquent if any portion of the receivable balance is outstanding for more than 60 days after the billing date. At May 31, 2019 and 2018, the following amounts were past due under student loan programs:

May 31,	Amounts Past Due			Total
	60-89 Days	90-119 Days	120+ Days	
2019	\$ 11	\$ 3	\$ 981	\$ 995
2018	6	2	757	765

**Note 6 – Investments**

The following summarizes the University's investments in funds other at May 31:

	2019	2018
Stocks, included in short term investments	\$ 3	\$ 3
Endowment	85,439	91,970
Real estate, excluding endowment assets	8,714	6,520
Other, at cost	<u>344</u>	<u>416</u>
	<u><u>\$ 94,500</u></u>	<u><u>\$ 98,909</u></u>

**Note 7 – Endowment Investments**

The University's endowment consists of 572 and 554 individual funds at May 31, 2019 and 2018, respectively, established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the governing board to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the governing board to function as endowments, are classified and reported based on the existence or absence of donor-imposed stipulations.

**Pacific Lutheran University**  
**Notes to Financial Statements (dollars in thousands)**

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**Note 7 – Endowment Investments (continued)**

**Interpretation of relevant law** – The University has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) adopted by the 2009 Washington legislature as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classifies as net assets with donor restrictions: (a) the original value of gifts donated to the donor-restricted endowment, (b) the original value of subsequent gifts to the donor-restricted endowment, and (c) accumulations to the donor-restricted endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. In accordance with UPMIFA, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the Endowment Fund; (2) the purposes of the University and the donor-restricted Endowment Fund; (3) general economic conditions; (4) the possible effect of inflation and deflation; (5) the expected total return from income and the appreciation of investments; (6) other resources of the University; and (7) the investment policies of the University.

Endowment net assets consisted of the following at May 31:

		May 31, 2019			
		With Donor Restrictions			
		Without Donor Restrictions	Original Gift	Accumulated Gains (Losses)	Total
Board-designated funds - purpose	\$ 16,408	\$ -	\$ -	\$ -	\$ 16,408
Donor-restricted funds					
Underwater funds	-	54,909		(7,461)	47,448
Other funds	-	16,772		2,530	19,302
Funds held by others	-	7,160		6,897	14,057
Total endowment funds	\$ 16,408	\$ 78,841	\$ 1,966		\$ 97,215
May 31, 2018					
		With Donor Restrictions			
		Without Donor Restrictions	Original Gift	Accumulated Gains (Losses)	Total
Board-designated funds - purpose	\$ 13,299	\$ -	\$ -	\$ -	\$ 13,299
Donor-restricted funds					
Underwater funds	-	45,115		(3,917)	41,198
Other funds	-	27,262		3,816	31,078
Funds held by others	-	7,160		7,078	14,238
Total endowment funds	\$ 13,299	\$ 79,537	\$ 6,977		\$ 99,813

**Pacific Lutheran University**  
**Notes to Financial Statements (dollars in thousands)**

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**Note 7 – Endowment Investments (continued)**

Changes to the endowment net assets for the years ended May 31, 2019 and 2018:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, May 31, 2017	<u>\$ 12,507</u>	<u>\$ 82,728</u>	<u>\$ 95,235</u>
Investment return			
Investment income, net of fees of \$387	216	1,415	1,631
Net appreciation - realized and unrealized	728	2,982	3,710
Net appreciation - perpetual trusts - unrealized	<u>-</u>	<u>666</u>	<u>666</u>
Total investment return	<u>944</u>	<u>5,063</u>	<u>6,007</u>
Contributions	<u>-</u>	<u>3,903</u>	<u>3,903</u>
Appropriation of endowment net assets for expenditure	<u>(733)</u>	<u>(4,780)</u>	<u>(5,513)</u>
Transfer from other funds	<u>581</u>	<u>(400)</u>	<u>181</u>
Endowment net assets, May 31, 2018	<u>13,299</u>	<u>86,514</u>	<u>99,813</u>
Investment return			
Investment income, net of fees of \$335	334	1,998	2,332
Net appreciation - realized and unrealized	(218)	(790)	(1,008)
Net appreciation - perpetual trusts - unrealized	<u>-</u>	<u>(81)</u>	<u>(81)</u>
Total investment return	<u>116</u>	<u>1,127</u>	<u>1,243</u>
Contributions	<u>-</u>	<u>2,555</u>	<u>2,555</u>
Appropriation of endowment net assets for expenditure	<u>(676)</u>	<u>(4,816)</u>	<u>(5,492)</u>
Transfer from other funds	<u>3,669</u>	<u>(4,573)</u>	<u>(904)</u>
Endowment net assets, May 31, 2019	<u><u>\$ 16,408</u></u>	<u><u>\$ 80,807</u></u>	<u><u>\$ 97,215</u></u>

**Funds with deficiencies** – From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the University to retain as a fund of perpetual duration. UPMIFA allows an institution to continue to spend on an endowment that is below the level of the original contributions and the University does not have a policy to suspend distributions on such endowments. In accordance with GAAP, deficiencies of this nature that are reported in net assets with donor restrictions were \$ 7,461 and \$3,917 as of May 31, 2019 and 2018, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of new donor-restricted contributions and continued appropriation for certain programs that was deemed prudent by the governing board.

**Pacific Lutheran University**  
**Notes to Financial Statements (dollars in thousands)**

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**Note 7 – Endowment Investments (continued)**

**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 include 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 governing board, the endowment assets are invested in a manner that is intended to produce an acceptable level of return while assuming a moderate level of investment risk. The University expects its endowment funds, over time, to provide an average annual rate of approximately 7%. Actual returns in any year may vary from this amount.

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

**Spending policy and how the investment objectives relate to spending policy** – The University has a policy that limits the amount the endowment shall distribute annually to 4.75% of a three-year average market value of the principal, on a unit value basis. The University Board approved a one-time additional distribution to fund some additional scholarships at year-end. The average computation is to include the November 30 quarter end preceding the beginning of the 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 to achieve a total return, over a three-year moving average basis, at least equal to the spending rate plus the rate of inflation as measured by the Consumer Price Index (CPI) for urban customers. 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.

**Pacific Lutheran University**  
**Notes to Financial Statements (dollars in thousands)**

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**Note 7 – Endowment Investments (continued)**

The following summarizes the University's endowment investments, which are recorded at fair value unless otherwise noted, at May 31:

	2019	2018
Cash and short-term investments	\$ 11,567	\$ 8,209
Commodity funds	11,711	2,668
Mutual funds	55,530	67,279
Alternative investments		
Hedge funds	24	25
Funds of hedge funds	306	469
Real estate contract, at cost	209	349
Real estate	3,060	5,543
Private equity funds	751	1,033
	83,158	85,575
Perpetual trusts held by others	12,492	12,573
Life insurance, at cost	1,565	1,665
	97,215	99,813
Less interfund amounts		
Cash and short-term investments, at cost	(11,567)	(7,481)
Real estate contracts, at cost	(209)	(362)
	(11,776)	(7,843)
	\$ 85,439	\$ 91,970

Endowment investments include interfund amounts, which have been eliminated in the financial statements. Investments, in general, are subject to various risks, including credit, interest and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in values of investment securities will occur in the near term and those changes could materially affect the amounts reported in the financial statements.

**Pacific Lutheran University**  
**Notes to Financial Statements (dollars in thousands)**

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**Note 8 – Net Assets Released from Restrictions**

Net assets with donor restrictions are released by incurring expenses satisfying the restricted purposes or by occurrence of events specified by the donors during the years ended May 31 were as follows:

	<u>2019</u>	<u>2018</u>
Expended for plant facilities	\$ -	\$ 2
Scholarships, instruction, and other departmental support	7,278	6,986
Other releases from restrictions	<u>2,282</u>	<u>381</u>
	<u><u>\$ 9,560</u></u>	<u><u>\$ 7,369</u></u>

**Note 9 – Long-Term Debt**

Long-term debt at May 31 to Washington Higher Education Facilities Authority (WHEFA) consisted of the following:

	Interest Rate Mode	Interest Rate	Maturity Date	May 31,	
				2019	2018
Series 2014 bonds - term	Fixed	4.63%	11/1/2041	\$ 5,800	\$ 5,800
Series 2014 bonds - serial	Fixed	5.25%	11/1/2044	4,200	4,200
Series 2016 bonds	Variable rate*	3.70%	11/1/2041	46,328	47,652
Note payable to an individual	Fixed	9.00%	2019	<u>2</u>	<u>14</u>
				56,330	57,666
Less unamortized discount, premium, and debt issuance costs				<u>(647)</u>	<u>(678)</u>
				<u><u>\$ 55,683</u></u>	<u><u>\$ 56,988</u></u>

\* LIBOR x 70% + 2% (applicable margin) is the effective interest rate as of May 31, 2019.

**Series 2014** – In June 2014, the WHEFA issued Revenue Bonds (Pacific Lutheran University) Series 2014 on behalf of the University totaling \$10,000. The bond proceeds were used to provide a portion of the funds to finance the renovations, additions and improvements to University residence halls, including Stuen Hall, Ordal Hall and South Hall, and to other University facilities located on its campus and to pay the costs of issuing the bonds. Principal payments begin on November 1, 2037.

**Series 2016** – In August 2016, WHEFA issued Refunding Revenue Bonds (Pacific Lutheran University Project) Series 2016 on behalf of the University totaling \$48,933. The bond proceeds were used to refund the Series 2006 WHEFA bonds. The structure of the bonds moved from fixed rate term and serial bonds to variable rate direct placement bonds. Principal payments on the Bonds began in November 2017.

The bonds are secured by a pledge of all unrestricted revenues as defined by the security agreement and the University's interest, if any in the Debt Service Fund.

**Pacific Lutheran University**  
**Notes to Financial Statements (dollars in thousands)**

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**Note 9 – Long-Term Debt (continued)**

The University maintains an unsecured \$5,000 line of credit, which it could draw upon in the event of an unanticipated liquidity need. No funds were borrowed under this agreement at fiscal years ended May 31, 2019 and 2018.

The loan agreements with the Washington Higher Education Facilities Authority require the University to comply with certain financial and other covenants described in those agreements.

**Other** – The note payable to an individual, dated January 20, 1995, was issued to purchase land adjacent to the University and is secured by the land. The note bears interest at a rate of 9.0%, with monthly installments of \$2, including interest, due in fiscal year 2020.

The approximate payment obligation requirements for all long-term debt for the five years subsequent to May 31, 2019, are:

2020	\$ 1,370
2021	1,413
2022	1,461
2023	1,510
2024	1,561
Thereafter	<u>49,015</u>
	<u>\$ 56,330</u>

**Note 10 – Property, Plant, and Equipment**

Property, plant, and equipment consisted of the following at May 31:

	2019	2018
Land	\$ 762	\$ 762
Buildings	168,428	168,428
Improvements other than buildings	12,462	9,855
Equipment and vehicles	16,519	15,488
Library books	4,220	4,733
Leasehold improvements	3,162	3,162
Nondepreciated assets	1,194	1,194
Construction in Progress	<u>218</u>	-
	206,965	203,622
Less accumulated depreciation and amortization	<u>(88,685)</u>	<u>(83,889)</u>
	<u><u>\$ 118,280</u></u>	<u><u>\$ 119,733</u></u>

The University has written off library assets that are fully depreciated and obsolete in the amount of \$546 and \$557 as of May 31, 2019 and 2018, respectively.

# **Pacific Lutheran University**

## **Notes to Financial Statements (dollars in thousands)**

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### **Note 11 – Deferred Gift Agreements**

The University has arrangements with donors classified as charitable lead trusts, charitable remainder trusts and charitable gift annuities. In general, under these arrangements the University receives a gift from a donor in which it has a remainder interest and agrees to pay the donor stipulated amounts over the life of the donor. The arrangement may cover one or more lives. The University invests and administers the related assets and makes distributions to the beneficiaries as required. When the agreement reaches the end of its term, remaining assets are retained by the University as net assets without donor restrictions or net assets with donor restrictions, or in some instances, distributed to third-party beneficiaries.

When a gift is received under one of these arrangements, it is split into the amount representing the actuarial present value of future distributions back to the donor and the remaining gift value to be retained for the benefit of the University or third-party beneficiaries.

The actuarial liability is adjusted annually using actuarial tables appropriate for the type of arrangement, number of lives covered and age and sex characteristics of the donor. The University used interest rates ranging from 1.20% to 11.60% in making the calculations at May 31, 2019 and 2018, respectively.

The University received \$182 and \$45 of gift value relating to deferred gift agreements for the years ended May 31, 2019 and 2018, respectively. Total assets held by the University under deferred gift agreements totaled \$10,403 and \$12,482 at May 31, 2019 and 2018, respectively.

The University maintains separate reserve funds adequate to meet future payments under its charitable gift annuity contracts as required by governing states' law. The total amount held in separate reserve funds under liabilities as split-interest agreements on the statement of financial position was \$927 and \$1,728, respectively, as of May 31, 2019 and 2018.

### **Note 12 – Operating Leases**

The University has an operating lease for equipment and also has three building facility leases. Two lease terms expire in January 2022, one with an option to renew for up to seven five-year lease terms, and the third lease term expires in March 2025. Rental expense under these leases totaled \$929 and \$1,005 for the years ended May 31, 2019 and 2018, respectively.

Thereafter, future minimum lease payments under operating leases as of May 31, 2019, are:

2020	\$	701
2021		630
2022		474
2023		254
2024		212
Thereafter		<u>165</u>
		<u><u>\$ 2,436</u></u>

**Pacific Lutheran University**  
**Notes to Financial Statements (dollars in thousands)**

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**Note 13 – Interest Rate Swap**

The University uses variable-rate debt to finance the acquisition of land, buildings, and equipment as indicated in Note 9. The variable rate at May 31, 2019, was 3.70% (70% of LIBOR plus 2%). These debt obligations expose the University to variability in interest payments due to changes in interest rates. The University believes it is prudent to limit the variability of a portion of its interest payments and has entered into an interest rate swap to manage fluctuation in cash flows resulting from interest rate risk.

Under the interest rate swap, the University receives variable interest rate payments and makes fixed interest rate payments, thereby creating the equivalent of fixed-rate debt. In August 2016, the University acquired a 10-year amortizing swap from Washington Federal at a fixed rate of 1.016%. The notional amount of this swap fluctuates over time per the underlying amortization schedule as principal payments are made on the bonds. The amortizing swap had a notional amount of \$37,828 at May 31, 2019. There was no cash exchange at the time of acquisition of this swap due to the relationship between the variable rates and the swap rate at that time.

Change in the fair value of the interest rate swap is reported as unrealized gains or losses on interest rate swap related to bonds on the Statements of Activities. Providing that the University holds the swap to maturity, the value of the derivative will be zero. This swapping transaction can be terminated at the market rates at any time during the term of the swap.

The University does not enter into derivative instruments for any purpose other than interest payment hedging purposes and does not speculate for investment purposes using derivative instruments.

**Pacific Lutheran University**  
**Notes to Financial Statements (dollars in thousands)**

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**Note 14 – Liquidity and Availability**

The following table reflects the University's financial assets as of May 31, 2019, reduced by amounts not available for general expenditures within one year. Financial assets are considered unavailable when illiquid or not convertible to cash within one year. Other considerations of non-liquid assets are state required annuity reserves, assets held for others, perpetual endowments and accumulated earnings net of appropriations within one year, trust assets or governing board designations for long-term investment. These investments include quasi-endowments and trusts.

	<u>2019</u>	<u>2018</u>
Financial assets		
Cash and cash equivalents	\$ 3,404	\$ 2,114
Accounts receivable	1,134	1,893
Contributions receivable	1,962	1,391
Grants and other receivables	2,078	2,281
Investments	94,500	98,909
Assets held under split-interest agreements	10,204	12,329
Bond reserves restricted	<u>1,441</u>	<u>1,441</u>
Financial assets, at year-end	114,723	120,358
Less those unavailable for general expenditure within one year		
Accounts and contributions receivable collectible beyond one year	2,479	2,517
Grants and other receivables unavailable beyond one year	1,918	2,214
Bond reserves required for issued bonds	1,441	1,441
Funds with donor restrictions for educational expenses	3,522	3,310
Investments and other financial assets held for others	5,564	6,724
Perpetual and term endowments, and accumulated earnings subject to appropriation beyond one year	77,251	83,766
Investments held in trusts and various state-required annuity reserves	<u>5,005</u>	<u>5,923</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 17,543</u>	<u>\$ 14,463</u>

As of May 31, 2019 and 2018, respectively, the University has liquid assets on hand to cover 66 and 56 days of operating expenses. The University's practice is to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

**Pacific Lutheran University**  
**Notes to Financial Statements (dollars in thousands)**

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**Note 15 – Analysis of Expense by Functional and Natural Categories**

Expenses by functional and natural categories at May 31:

	May 31, 2019								
	Program Services			Supporting Activities			Total Expenses		
	Instruction and Research	Student Services	Public Service	Adminis-tration	Fund-raising				
Compensation	\$ 24,947	\$ 9,473	\$ 603	\$ 10,402	\$ 1,862	\$ 47,287			
Employee benefits	6,745	2,186	137	4,184	472	13,724			
Service, supplies, and other expenses	7,247	8,354	864	5,472	364	22,301			
Facility operations and maintenance	2,534	602	9	514	-	3,659			
Depreciation and accretion	3,764	894	13	763	-	5,434			
Interest	1,368	325	5	277	-	1,975			
	<b>\$ 46,605</b>	<b>\$ 21,834</b>	<b>\$ 1,631</b>	<b>\$ 21,612</b>	<b>\$ 2,698</b>	<b>\$ 94,380</b>			

	May 31, 2018								
	Program Services			Supporting Activities			Total Expenses		
	Instruction and Research	Student Services	Public Service	Adminis-tration	Fund-raising				
Compensation	\$ 24,922	\$ 9,587	\$ 362	\$ 9,408	\$ 1,934	\$ 46,213			
Employee benefits	6,658	2,209	83	3,991	441	13,382			
Service, supplies, and other expenses	7,127	8,031	436	5,002	383	20,979			
Facility operations and maintenance	3,523	836	12	714	-	5,085			
Depreciation and accretion	3,728	885	13	756	-	5,382			
Interest	1,401	333	5	284	-	2,023			
	<b>\$ 47,359</b>	<b>\$ 21,881</b>	<b>\$ 911</b>	<b>\$ 20,155</b>	<b>\$ 2,758</b>	<b>\$ 93,064</b>			

The financial statements report compensation, benefits, and services to the appropriate direct program. The table above has certain categories of expenses that are attributable to one or more programs or supporting functions of the University allocated to these functional programs. These expenses include facility operations and maintenance, depreciation and accretion, and interest. These costs are allocated based on square footage methodology.

# **Pacific Lutheran University**

## **Notes to Financial Statements (dollars in thousands)**

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### **Note 16 – Related-Party Transactions**

**Garfield Commons, LLC** –The University has a 49% ownership interest in Garfield Commons, and applies the equity method of accounting for its investment. The other investee, Lorig/Garfield Commons, LLC, a Washington limited liability company, has a 51% ownership in the partnership. The property upon which the commercial building was constructed constituted the University's capital contribution in Garfield Commons. Terms of a separate lease agreement between the University, as a lessee and Garfield Commons, as the lessor, commenced at that time and expires on January 31, 2022. At May 31, 2019 and 2018, the University's investment in Garfield Commons, LLC, totaled \$1,498 and \$1,467, respectively, and is included in Investments on the statements of financial position.

**Garfield North, LLC** –The University has a 29% ownership interest, and is applying the equity method of accounting for its investment. Garfield Partners, LLC (GP) has a 71% ownership. One member of the University's Board of Regents is personally invested in GP. At May 31, 2019 and 2018, the University's investment in Garfield North, LLC, totaled \$331 and \$409, respectively, and is included in Investments on the statements of financial position.

Under the terms of the partnership agreement, as amended, the University provided financing to Garfield North, LLC in the form of a loan in the amount of \$1,000. Interest is at 3%. Principal payments of \$150 shall be made annually until the loan is paid in full, unless sufficient funds are not available to pay the full \$150, in which case the balance shall be added to the amount to be paid in the next year. The loan is jointly and severally guaranteed by GP, the related party and another entity in an amount equal to their 71% of the loan. At May 31, 2019 and 2018, the amount due from Garfield North, LLC, totaled \$800 and \$850, respectively, and is included as other receivables on the statements of financial position.

Contributions receivable from board members at May 31, 2019 and 2018, were \$84 and \$55, respectively. Gifts from board members totaled \$68 and \$51 at May 31, 2019 and 2018, respectively.

### **Note 17 – Concentration of Credit Risk**

Financial instruments that potentially subject the University to concentrations of credit risk consist principally of cash, investments, accounts receivable, notes receivable, real estate contracts receivable and other receivables. Cash and cash equivalents in excess of federally insured limits are subject to the usual risks of balances in excess of those limits. The majority of the University's cash and cash equivalents are on deposit with a single bank. Investments are diversified in order to limit credit risk. Investments are generally placed in a variety of managed funds administered by different investment managers in order to limit credit risk. Concentrations of credit risk with respect to the real estate contracts receivable are limited due to the University holding a secured position in these agreements. Student notes and receivables and other receivables are due from a variety of sources concentrated primarily in the northwestern United States. In addition, the University's students receive a substantial amount of support from state and federal student financial assistance programs, which are subject to audit by governmental agencies. A significant reduction in the level of this support, if this were to occur, could have an adverse effect on the University's programs and activities.

**Pacific Lutheran University**  
**Notes to Financial Statements (dollars in thousands)**

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**Note 18 – Commitments and Contingencies**

**Regulation and litigation** – The University receives funding or reimbursement from governmental agencies for various activities which are subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations can be subject to government review and interpretation, as well as regulatory actions. The University is subject to such regulatory reviews, and while these reviews may result in repayments and/or civil remedies, management believes, based on its current knowledge and information, that such repayments and/or civil remedies, if any, would not have a material effect on the University's financial position.

The University is subject to legal proceedings and claims that arise in the ordinary course of its business. In the opinion of management, there are no matters that will materially affect the University's financial position.

**Note 19 – Subsequent Events**

Subsequent events are events or transactions that occur after the statement of financial position date but before financial statements are issued. The University recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position, including the estimates inherent in the process of preparing the financial statements. The University's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position but arose after the statement of financial position date and before financial statements are available to be issued.

The University has evaluated subsequent events through October 18, 2019, which is the date the financial statements are available to be issued.



**Report of Independent Auditors on Internal Control Over Financial Reporting  
and on Compliance and Other Matters Based on an Audit of Financial  
Statements Performed in Accordance with *Government Auditing Standards***

To the Board of Regents  
Pacific Lutheran University

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Pacific Lutheran University (the University), which comprise the statement of financial position as of May 31, 2019, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 18, 2019.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the University's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the University's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Moss Adams LLP*

Yakima, Washington

October 18, 2019



## **Report of Independent Auditors on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance**

To the Board of Regents  
Pacific Lutheran University

### **Report on Compliance for Each Major Federal Program**

We have audited Pacific Lutheran University's (the University) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the University's major federal programs for the year ended May 31, 2019. The University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

#### ***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the University's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the University's compliance.

#### ***Opinion on Each Major Federal Program***

In our opinion, Pacific Lutheran University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended May 31, 2019.

## **Report on Internal Control Over Compliance**

Management of the University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the University's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control* over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control* over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2019-001 that we consider to be a significant deficiency.

The University's response to the internal control over the compliance finding identified in our audit is described in the accompanying *schedule of findings and questioned costs*. The University's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Moss Adams LLP*

Yakima, Washington  
October 18, 2019

**Pacific Lutheran University**  
**Schedule of Findings and Questioned Costs**  
**Year Ended May 31, 2019**

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**Section I – Summary of Auditor's Results**

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**Financial Statements**

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?  Yes  No
- Significant deficiency(ies) identified?  Yes  None reported

Noncompliance material to financial statements noted?

Yes  No

**Federal Awards**

Internal control over major federal programs:

- Material weakness(es) identified?  Yes  No
- Significant deficiency(ies) identified?  Yes  None reported

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

Yes  No

Identification of major federal programs and type of auditor's report issued on compliance for major federal programs:

<i>CFDA Number(s)</i>	<i>Name of Federal Program or Cluster</i>	<i>Type of Auditor's Report Issued on Compliance for Major Federal Programs</i>
Various	Student Financial Assistance Cluster	Unmodified
93.247	Advanced Nursing Education Workforce Grant Program	Unmodified

Dollar threshold used to distinguish between type A and type B programs:

\$ 750,000

Auditee qualified as low-risk auditee?

Yes  No

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**Section II – Financial Statement Findings**

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None reported.

**Pacific Lutheran University**  
**Schedule of Findings and Questioned Costs**  
**Year Ended May 31, 2019**

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**Section III – Federal Award Findings and Questioned Costs**

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**Finding 2019-001 Eligibility**

**Significant Deficiency in Internal Control over Compliance**

**Student Financial Assistance Cluster**  
**U.S. Department of Education**

**CFDA number:** 84.063

**Federal program name:** Federal Pell Grant Program

**Award year:** 2018-19

**Criteria** – Per 34 CFR §690.62, the amount of a student's Pell Grant award for an academic year is based upon the payment and disbursement schedules published by the Secretary for each award year. These schedules detail out the maximum Pell award amount a student would receive for a full academic year for a given enrollment status, expected family contribution (EFC), and cost of attendance (COA).

**Condition and context** – Our test work over the Eligibility compliance requirement included testing a random sample of 30 students from the total population of students receiving Federal aid. One student in the sample had an EFC of \$5,403 and COA of \$49,283, based on full time enrollment, yet did not receive any 2018-19 Pell grant disbursements. Based on the final payment and disbursement schedules published by the Secretary for 2018-19, the student in question should have received Pell payments totaling \$652. Upon further review by the University, two more students should have received Pell payments of \$652 each. A total of three students were under awarded by \$1,956.

Statistical sampling was not used when making sample selections.

**Questioned costs** – None to be reported.

**Effect** – Inaccurate Pell eligibility determinations can result in students not receiving the correct amount Pell grant money based on their financial need. The three students affected were under-awarded by \$652 each and each will need to be disbursed this amount immediately.

**Cause** – The 2018-19 awards for the three students affected were packaged in February 2018 based on 2017-18 Pell award amounts. The 2018-19 maximum Pell award was revised on March 23, 2018, requiring a revision to and re-release of the 2018-19 Federal Pell grant payment and disbursement schedules. The maximum Pell-eligible EFC was revised from \$5,328 to \$5,486, thus making the three students with EFCs in this range, Pell eligible for 2018-19. A control requiring the review and reassessment of 2018-19 Pell eligibility based on expected family contributions of \$5,328 (the maximum Pell EFC for 2017-18 awards) through \$5,486 (the maximum Pell EFC for 2018-19 awards) was not in place.

**Repeat finding** – No.

**Pacific Lutheran University**  
**Schedule of Findings and Questioned Costs**  
**Year Ended May 31, 2019**

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**Finding 2019-001 Eligibility (continued)**

**Recommendation** – We recommend the University implement a process and control in which a review for Pell eligibility of EFCs close to the maximum Pell amount for the applicable award year, and perform this process at least once per term. This review should occur upon the finalization of the published payments and disbursement schedules. We recommend the University closely monitor all students' EFCs to ensure all students are evaluated for Federal award eligibility and those receiving Federal assistance are disbursed the correct amounts.

**Views of responsible officials and planned corrective actions** – The 2018-19 Pell payment and disbursement schedule was revised in March 2018, after many of our students had already been packaged for the 2018-19 academic year. Whereas the previous schedule awarded Pell to students with an EFC of \$5,328 or lower, the new schedule awarded Pell to students with an EFC of \$5,486 or lower. Three students who had already been packaged by March 2018 had EFCs between \$5,328 and \$5,486. As a result, they each should have been awarded \$652 in Pell for the 2018-19 academic year. At the time, we did not have a process to identify such students, and these three were not awarded Pell.

Upon discovery of these three students during the audit, we immediately awarded and disbursed \$652 in the Federal Pell Grant to each of them. Going forward, we have created a report to identify all students with a Pell eligible EFC and the amount of Pell each student has been awarded. As soon as the new Pell payment and disbursement chart is released each year, we will begin running the report monthly to identify anyone who is missing a Pell award or whose Pell award needs to be adjusted. We will run the report through the end of the award year, and we will update it annually to reflect any revisions to the Pell payment and disbursement schedule.

**Pacific Lutheran University**  
**Summary Schedule of Prior Audit Findings**  
**Year Ended May 31, 2019**

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**2018-001 Special Tests and Provisions – Return of Title IV Funds—Significant Deficiency in Internal Control over Compliance, Non-compliance**

**Current status** – Resolved, corrective action was taken

**2018-002 Special Tests and Provisions – Borrower Data Transmission and Reconciliation Significant Deficiency in Internal Control over Compliance, Non-compliance**

**Current status** – Resolved, corrective action was taken

## **Supplementary Information**

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**Pacific Lutheran University**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended May 31, 2019**

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Federal Grantor and Program Title	Grant Number	Pass-through Entity and Identifying Number*	Federal CFDA Number	Federal Expenditures
<b>STUDENT FINANCIAL ASSISTANCE CLUSTER</b>				
U.S. Department of Education:				
Federal Pell Grant Program	P063P192411		84.063	\$ 4,259,972
Federal Supplemental Educational Opportunity Grant	P007A194395		84.007	629,861
Teacher Education Assistance for College and Higher Education Grant	P379T192411		84.379	137,765
Federal Work-Study Program	P033A194395		84.033	330,018
Federal Perkins Loan Program	P038A034395		84.038	6,608,663
Federal Direct Student Loans	P268K182411		84.268	<u>21,771,207</u>
				<u>33,737,486</u>
U.S. Department of Health and Human Services:				
Nursing Faculty Loan Program	NFLP300065		93.264	26,231
Nursing Student Loans	831383400		93.364	<u>1,238,965</u>
				<u>1,265,196</u>
Total Student Financial Assistance Cluster				
				<u>35,002,682</u>
<b>RESEARCH AND DEVELOPMENT CLUSTER</b>				
National Science Foundation				
Mathematical and Physical Sciences	DMR-1710549		47.049	57,576
Education and Human Resources	1758506		47.076	<u>19,195</u>
Total Research and Development Cluster				<u>76,771</u>
<b>OTHER PROGRAMS</b>				
<b>U.S. Department of Health and Human Services:</b>				
Advanced Nursing Education Workforce Grant Program	T94HP30874-01-00		93.247	<u>753,103</u>
Total U.S. Department of Health and Human Services				<u>753,103</u>
Total expenditures of federal awards				<u>\$ 35,832,556</u>

\*All awards are direct from the named federal agency unless indicated in this column.

**Pacific Lutheran University**  
**Notes to Schedule of Expenditures of Federal Awards**  
**Year Ended May 31, 2019**

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**Note 1 – Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the University under programs of the federal government for the year ended May 31, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the University, it is not intended to and does not present the financial position, statement of activities, or cash flows of the University.

**Note 2 – Summary of Significant Accounting Policies**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts, if any, shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The University has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

**Note 3 – Federal Student Loan Programs**

The federal student loan programs listed subsequently are administered directly by the University, and balances and transactions relating to these programs are included in the University's basic financial statements. Loans outstanding at the beginning of the year and loans made during the year are included in the federal expenditures presented in the Schedule. The balance of loans outstanding at May 31, 2019, consists of:

CFDA Number	Program Name	Outstanding Balance at May 31, 2019
84.038	Federal Perkins Loan	\$5,747,978
93.264	Nursing Faculty Loans	26,231
93.364	Nursing Student Loans	1,058,170



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