



Report of Independent Auditors  
and Financial Statements for  
**Pacific Lutheran University**  
*May 31, 2016 and 2015*

## **CONTENTS**

---

	PAGE
REPORT OF INDEPENDENT AUDITORS	3-4
FINANCIAL STATEMENTS	
Statement of financial position	5
Statement of activities	6
Statement of cash flows	7
Notes to financial statements	8-28

---

## 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, 2016, 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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, 2016, 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 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 14, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended May 31, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Moss Adams LLP*

Yakima, Washington  
December 5, 2016

**PACIFIC LUTHERAN UNIVERSITY**  
**STATEMENTS OF FINANCIAL POSITION**

*As of May 31, 2016 and 2015*

*(in thousands)*

<b>ASSETS</b>	<b>2016</b>	<b>2015</b>
Cash and cash equivalents	\$ 4,991	\$ 5,333
Student Receivables, net	1,090	2,002
Grants and other receivables	2,110	2,382
Inventories and prepaid expenses	1,273	1,708
Contributions receivables, net	1,641	1,261
Student loans receivable, net	6,468	6,795
Investments	82,433	82,645
Assets held under split-interest agreements	11,917	13,214
Bond proceeds restricted for capital projects	5,876	11,428
Bond acquisition costs	1,369	1,403
Property, Plant and Equipment	125,204	125,024
<b>Total assets</b>	<b>\$ 244,372</b>	<b>\$ 253,195</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities</b>		
Accounts payable and accrued liabilities	\$ 9,042	\$ 10,644
Long-Term Debt	61,815	63,231
Unamortized premium on long-term debt	723	759
Student deposits	1,776	2,332
Government grants refundable	8,038	7,590
Liabilities under split-interest agreements	6,709	7,569
Other liabilities	1,424	1,348
<b>Total liabilities</b>	<b>89,527</b>	<b>93,473</b>
<b>Net Assets</b>		
Unrestricted:		
Available for operations	6,503	1,247
Funds held for long-term investment held as endowment	(1,545)	2,759
Split-interest agreement funds	146	236
Invested in property, plant and equipment	60,864	61,675
<b>Total unrestricted</b>	<b>65,968</b>	<b>65,917</b>
Temporarily restricted		
Unexpended funds received for educational expenses	1,290	5,158
Unappropriated gains on endowments	2,944	6,076
Split-interest agreement funds	106	114
<b>Total temporarily restricted</b>	<b>4,340</b>	<b>11,348</b>
Permanently restricted		
Endowment funds	79,102	76,746
Student loan funds	165	165
Split-interest agreement funds	5,270	5,546
<b>Total permanently restricted</b>	<b>84,537</b>	<b>82,457</b>
<b>Total net assets</b>	<b>154,845</b>	<b>159,722</b>
<b>Total liabilities and net assets</b>	<b>\$ 244,372</b>	<b>\$ 253,195</b>

*See accompanying notes to financial statements*

**PACIFIC LUTHERAN UNIVERSITY**  
**STATEMENTS OF ACTIVITIES**

For year ended May 31, 2016

(in thousands)

(with summarized financial information for the year ended May 31, 2015)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals	
				2016	2015
<b>OPERATING:</b>					
Revenues and gains:					
Tuition and fees	\$ 114,173			\$114,173	\$112,575
Less student financial aid	(51,170)			(51,170)	(48,576)
Net tuition and fees	63,003	-	-	63,003	63,999
Sales and Service of auxiliary services	16,865			16,865	17,283
Grants	1,289	957		2,246	2,204
Contributions	5,636	2,129	2,080	9,845	11,408
Other investment income (loss)	5,051	(1,812)		3,239	1,672
Change in split interest agreements	120	(459)		(339)	-
Other revenues	2,693	821		3,514	4,155
Total operating revenues and gains	94,657	1,636	2,080	98,373	100,721
Reclassifications of net assets	2,266	(2,266)			-
Net assets released from restrictions	6,378	(6,378)			-
	103,301	(7,008)	2,080	98,373	100,721
<b>EXPENSES:</b>					
Instruction	32,625			32,625	32,770
Public service	7,578			7,578	6,941
Academic support	5,376			5,376	5,373
Student services	10,900			10,900	10,606
Institutional support	18,094			18,094	18,721
Auxiliary enterprises	11,456			11,456	12,621
Allocated expenses	17,221	-		17,221	14,442
	103,250	-	-	103,250	101,474
CHANGES IN NET ASSETS	51	(7,008)	2,080	(4,877)	(753)
NET ASSETS, beginning of the year	65,917	11,348	82,457	159,722	160,475
NET ASSETS, end of the year	\$ 65,968	\$ 4,340	\$ 84,537	\$154,845	\$159,722

See accompanying notes to consolidated financial statements

# PACIFIC LUTHERAN UNIVERSITY

## STATEMENTS OF CASH FLOWS

For the years ended May 31, 2016 and 2015

(in thousands)

	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Decrease in net assets	(4,877)	(753)
<b>Noncash operating adjustments:</b>		
Depreciation	5,321	3,824
Accretion	48	46
Provision for doubtful student accounts and pledges	655	(8)
Net realized and unrealized (gain) loss on investments	(1,549)	267
Change in cash surrender value of life insurance held as endowment	-	(27)
Change in value of split interest agreements	767	380
<b>Noncash investing and financing adjustments:</b>		
Contributions to temporarily restricted and permanently restricted net assets	(3,935)	(3,354)
Loss (gain) on disposal of plant assets	-	1,047
Contributions of real estate held for sale	-	(283)
<b>Changes in operating assets and liabilities:</b>		
Student accounts receivable	885	(728)
Grants and other receivables	301	(32)
Inventories and prepaid expenses	435	450
Contributions receivables	(899)	354
Accounts payable, accrued liabilities and other liabilities	(1,604)	124
Student deposits	(556)	539
Government grants refundable	448	198
<b>Net cash provided (used) by operating activities</b>	<b>\$ (4,560)</b>	<b>\$ 2,044</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of investments	(99,409)	(11,237)
Proceeds from sale of investments	101,169	10,527
Proceeds from parial redemption of life insurance policy	-	19
Proceeds from sale of property	-	745
Changes to bond proceeds restricted for capital assets, net	5,551	(6,626)
Purchase of land, buildings and equipment	(5,500)	(6,420)
Repayment of contracts receivable	-	30
Proceeds from matured trust	(146)	-
Net change in student loans receivable	218	411
<b>Net cash provided (used) by investing activities</b>	<b>1,883</b>	<b>(12,551)</b>
<b>FINANCING ACTIVITIES</b>		
Payments on long-term debt	(1,416)	(1,345)
Proceeds from issuance of long term debt	-	9,881
Loan fees	-	(201)
Contributions to temporarily restricted and permanently restricted net assets	3,935	3,354
Proceed from issuance of split interest agreements	35	755
Annuity payments and other	(219)	(854)
<b>Net cash provided by financing activities</b>	<b>2,335</b>	<b>11,590</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(342)</b>	<b>1,083</b>
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	5,333	4,250
End of year	<b>\$ 4,991</b>	<b>\$ 5,333</b>
<i>Supplemental disclosure of cash flow information --</i>		
Interest Paid	\$ 2,901	\$ 2,886
Acquisition of property, plant and equipment through accounts payable	\$ 2	\$ -

See accompanying notes to financial statements

# PACIFIC LUTHERAN UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS

---

(in thousands)

### Note 1 – Organization

Pacific Lutheran University (the University) is a private non-profit institution 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 3,300 students. The University offers 44 majors and 54 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 universities and colleges 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 conformity 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 (see 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. During 2016, the University reclassified two properties that were held in property, plant and equipment to investments on the accompanying statement of financial position as the properties were considered to be investment properties and not used for the purpose of University operations. The University's endowment also invested in several properties that were previously held as property, plant and equipment. The real estate investments transferred through these transactions had a fair value of \$5,934 with a cost basis of \$1,839. The resulting gain of \$4,095 from the write-up to fair value is included in other investment income in the accompanying statement of activities.

Alternative investments are investments for which there is no readily determinable published value. The University has made a change in their investment strategy to liquidate the alternative investment portfolio as liquidity becomes available. It is our current strategy to have a balanced portfolio of equities, fixed assets and real estate.



# PACIFIC LUTHERAN UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS

---

(in thousands)

### 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. All other inventories are valued at the lower of cost or market, determined on a first-in, first-out basis.

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

**Bond acquisition costs** – Costs of bond issuance are deferred and amortized over the term of the related indebtedness.

**Property, plant, and equipment** – Physical plant assets are stated at cost at date of acquisition less accumulated depreciation. The University depreciates its assets on the 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 of financial instruments** – The carrying values of cash and cash equivalents, receivables, prepaid expenses, deposits held in custody for others, accounts payable and accrued liabilities, split interest agreements are reasonable estimates of their fair value due to discounting or the short-term nature and terms of these financial instruments. Investments are recorded at fair value as discussed in Note 3. The fair value of bonds payable approximates the carrying value, as it is based on current rates offered to the University for similar debt of the same remaining maturities and, additionally, the University considers its creditworthiness in determining the fair value of the bonds payable. The bonds are considered a Level 2 within the fair value hierarchy as described in Note 3. It is not practical to estimate the fair value of student receivables and the liability for governmental grants refundable, as these loans are subject to restrictions on interest rates and transferability. Real estate is recorded at fair value. The investments in Garfield Commons, LLC, and Garfield North, LLC, are carried at cost.

**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

# PACIFIC LUTHERAN UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS

(in thousands)

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

associated with asset retirements 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.

Changes in the accrual for asset retirement obligations reflected in other liabilities on the statement of financial position for the years ended May 31, 2016 and 2015 are as follows:

	2016	2015
Balance, Beginning of the year	\$ 964	\$ 918
Accretion expense	48	46
Balance, End of the year	<u>\$ 1,012</u>	<u>\$ 964</u>

**Government grants refundable** – 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. 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, 2016 and 2015. 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 three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Net assets of the University and changes therein are classified and reported as follows:

**Unrestricted net assets** – Net assets that are not subject to donor-imposed stipulations.

**Temporarily restricted net assets** – Net assets subject to donor-imposed stipulations that will be met by action of the University and/or the passage of time.

# PACIFIC LUTHERAN UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS

---

*(in thousands)*

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

**Permanently restricted net assets** – Net assets subject to donor-imposed stipulations that they be maintained by the University in perpetuity. Generally the donors of these assets permit the University to use all or part of the income and gains earned on related investments for general or specific purposes.

**Prior year summarized information** - The statement of activities includes comparative summarized information for the year ended May 31, 2015. 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, 2015, from which the summarized information was derived.

**Releases from restrictions** - Expirations of temporary 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 unrestricted net assets. Expenses are reported as decreases in unrestricted net assets. Income earned on donor-restricted funds is initially classified as temporarily restricted net assets and is reclassified as unrestricted net assets when expenses are incurred for their 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. Expirations of temporary restrictions on net assets 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

---

*(in thousands)*

### **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 unrestricted revenues. Contributions of cash or other assets to be used to acquire property and equipment are reported as temporarily restricted revenues; 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 net gains and losses on investments of endowment and similar funds are reported as follows:

- Increases or decreases in permanently restricted net assets if the terms of the gift or the University's interpretation of relevant state law requires they be added to the principal of a permanently restricted net asset.
- Increases or decreases in temporarily restricted net assets if the terms of the gift impose restrictions on the use of the income.
- Increases or decreases in unrestricted net assets 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, 2016 and 2015, resulting in total contributions of approximately \$3,740 and \$3,775 for 2016 and 2015, 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 \$2,696 and \$2,193 for the years ended May 31, 2016 and 2015, 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. Accordingly, certain expenses have been allocated among the programs and supporting services benefited.

**Reclassification** – Certain amounts from the prior year statement of activities and statement of financial position have been reclassified, in order to conform to the current year presentation.

The current year reclassification of \$2,266 is in consideration of the classification of the radio station – KPLU as an unrestricted net asset. KPLU, a department of the University as a part of its operating activities and does not carry any restrictions.

# PACIFIC LUTHERAN UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS

---

(in thousands)

### 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** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

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, 2016 and 2015.

*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. The mutual funds held by the Plan are deemed to be actively traded.

*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 markets that are not active or are for the same or similar assets in active markets.

*Investments in real estate:* Based on appraised values using level 3 observable inputs 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, 2016 and 2015.

*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.

**PACIFIC LUTHERAN UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**

(in thousands)

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

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.

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

ASSETS	Fair Value Measurements at May 31, 2016			
	Level 1	Level 2	Level 3	Total
Short term investments	\$ 1	\$ 3,485	\$ -	\$ 3,486
Mutual funds				
Domestic equity funds	3,722	-	-	3,722
International equity funds	2,110	-	-	2,110
Global fixed income funds	17,627	815	-	18,442
Index funds	30,056	-	-	30,056
U.S. government bond funds	-	1,156	-	1,156
Corporate bond funds	-	1,952	-	1,952
High yield bond funds	-	268	-	268
Real estate funds	1,548	-	-	1,548
Commodity funds	1,737	-	-	1,737
Investments in Real Estate	-	-	9,856	9,856
Perpetual trusts held by others	-	-	11,451	11,451
Government obligations	5,876	-	-	5,876
Total	<u>\$ 62,677</u>	<u>\$ 7,676</u>	<u>\$ 21,307</u>	<u>\$ 91,660</u>
Investments Measured at NAV (Practical Expedient)				<u>4,871</u>
				<u>\$96,531</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, 2016:

Assets:	Balances May 31, 2015	Net Realized and Unrealized Gains (Losses)	Purchases	Sales	Transfers	Balances May 31, 2016
Perpetual Trusts Held by Endowment	\$ 11,258	\$ 193	\$ -	\$ -	\$ -	\$ 11,451
Investment in Real Estate	-	3,437	-	(74)	6,493	9,856
Total	<u>\$ 11,258</u>	<u>\$ 3,630</u>	<u>\$ -</u>	<u>\$ (74)</u>	<u>\$ 6,493</u>	<u>\$ 21,307</u>

**PACIFIC LUTHERAN UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**

(in thousands)

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

Total gains and losses are included in the Statement of Activities for the year ended May 31, 2016.

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.

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

ASSETS	Fair Value Measurements at May 31, 2015			
	Level 1	Level 2	Level 3	Total
Short term investments	\$ -	\$ 5,375	\$ -	\$ 5,375
Mutual funds				
Domestic equity funds	10,996	-	-	10,996
International equity funds	28,056	-	-	28,056
Global fixed income funds	6,776	884	-	7,660
Index funds	3,958	-	-	3,958
U.S. government bond funds	-	1,293	-	1,293
Corporate bond funds	-	2,018	-	2,018
High yield bond funds	-	288	-	288
Real estate funds	-	-	-	-
Commodity funds	3,424	-	-	3,424
Perpetual trusts held by others	-	-	11,258	11,258
Government obligations	11,428	-	-	11,428
Total assets in the fair value hierarchy	<u>\$64,638</u>	<u>\$9,858</u>	<u>\$11,258</u>	<u>\$85,754</u>
Investments Measured at NAV (Practical Expedient)				<u>12,675</u>
				<u>\$98,429</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, 2015:

Assets:	Balances May 31, 2014	Net Realized and Unrealized Gains (Losses)	Purchases	Sales	Balances May 31, 2015
Perpetual Trusts Held by Endowment	\$ 10,141	\$ 102	\$ 1,015	\$ -	\$ 11,258
Total	<u>\$ 10,141</u>	<u>\$ 102</u>	<u>\$ 1,015</u>	<u>\$ -</u>	<u>\$ 11,258</u>

Total gains and losses are included in the Statement of Activities for the year ended May 31, 2015.

**PACIFIC LUTHERAN UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**

(in thousands)

**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, 2016:

	Fair Value	Remaining Life	Unfunded Commitments	Redemption Terms	Redemption Restrictions
Hedge Funds	\$1.9 million	N/A	None	Monthly to annual, 45 to 90 days notice	Currently there are no lock-ups in effect. Upon full redemption, 90%-95% is returned, with the remaining 5%-10% held back until the completion of the annual audit
Private Equity	\$1.9 million	1 to 12 years	\$811	3 to 5 years to draw	N/A
Funds of Funds	\$1.0 million	N/A	None	Annual with 120 days notice	1 year lockup. Upon full redemption, 90% is returned, with the remaining 10% heldback until the completion of the annual audit

**Note 4 – Contributions Receivable**

Contributions receivable at May 31 include the following:

	2016	2015
Contributions	\$ 3,105	\$ 2,240
Less allowance for uncollectable contributions	(659)	(140)
Less unamortized discount	(805)	(839)
Net unconditional promises to give	<u>\$ 1,641</u>	<u>\$ 1,261</u>
Amounts due in:		
Less than one year	\$ 1,350	
One to five years	577	
More than five years	1,178	
	<u>\$ 3,105</u>	



**PACIFIC LUTHERAN UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**

(in thousands)

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

Contributions due in more than one year received on or before May 31, 2009 were discounted at an interest rate of 6%. Contributions due in more than one year received after May 31, 2009 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 6.00% at May 31, 2016 and 2015. 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, 2016 and 2015, student loans represented approximately 3% of total assets.

At May 31, 2016 and 2015, student loans consisted of the following:

	<u>2016</u>	<u>2015</u>
Federal government programs	\$ 6,934	\$ 7,152
Less allowance for doubtful accounts:		
Beginning of year	357	377
(Increases)/Decreases	<u>(109)</u>	<u>20</u>
End of year	<u>466</u>	<u>357</u>
Student loans receivable, net	<u>\$ 6,468</u>	<u>\$ 6,795</u>

Funds advanced by the Federal government of \$8,038 and \$7,590 at May 31, 2016 and 2015, 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**

*(in thousands)*

**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, 2016 and 2015, the following amounts were past due under student loan programs:

May 31	Amounts Past Due			
	60-89 days	90-119 days	120+ days	Total
2016	\$ 5	\$ 2	\$ 761	\$ 768
2015	6	4	742	752

**Note 6 - Investments**

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

	2016	2015
Stocks	\$ 3	\$ 3
Endowment	76,801	82,547
Real estate	5,000	-
Other, at cost	629	95
	<u>\$ 82,433</u>	<u>\$ 82,645</u>

**Note 7 - Endowment Investments**

The University's endowment consists of 511 individual funds 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 restrictions.

**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 permanently restricted net assets: (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by the state of Washington in its enacted version of UPMIFA. In accordance with UPMIFA, the University considers the following factors in making a determination to appropriate or

**PACIFIC LUTHERAN UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**

*(in thousands)*

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

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 asset composition by type of fund consists of the following as of May 31, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (6,062)	\$ 2,944	\$ 79,101	\$ 75,983
Board-designated endowment funds	<u>4,517</u>	<u>-</u>	<u>-</u>	<u>4,517</u>
	<u>(1,545)</u>	<u>2,944</u>	<u>79,101</u>	<u>80,500</u>

Endowment net asset composition by type of fund consists of the following as of May 31, 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (2,172)	\$ 6,076	\$ 76,746	\$ 80,650
Board-designated endowment funds	<u>4,931</u>	<u>-</u>	<u>-</u>	<u>4,931</u>
	<u>2,759</u>	<u>6,076</u>	<u>76,746</u>	<u>85,581</u>

**PACIFIC LUTHERAN UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**

(in thousands)

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

Changes to the endowment net assets for the years ended May 31, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Endowment net assets, May 31 2014</b>	\$ 3,618	\$ 7,369	\$ 73,378	\$ 84,365
Investment return:				
Investment income, net of fees of \$204	636	1,613	-	\$ 2,249
Net appreciation - realized and unrealized	(859)	441	-	\$ (418)
Net appreciation - perpetual trusts - unrealized	-	-	102	\$ 102
Total investment return	(223)	2,054	102	\$ 1,933
Contributions	-	-	3,234	3,234
Appropriation of endowment net assets for expenditure	(636)	(3,367)	-	(4,003)
Transfers from other funds	-	20	32	52
<b>Endowment net assets, May 31 2015</b>	\$ 2,759	\$ 6,076	\$ 76,746	\$ 85,581
Investment return:				
Investment income, net of fees of \$329	1,789	(1,073)	-	716
Net appreciation - realized and unrealized	(4,405)	1,113	-	(3,292)
Net appreciation - perpetual trusts - unrealized			193	193
Total investment return	(2,616)	40	193	(2,383)
Contributions	100		1,973	2,073
Appropriation of endowment net assets for expenditure	(1,788)	(3,284)	-	(5,072)
Transfers from other funds	-	112	189	301
<b>Endowment net assets, May 31, 2016</b>	<b>\$ (1,545)</b>	<b>\$ 2,944</b>	<b>\$ 79,101</b>	<b>\$ 80,500</b>

**PACIFIC LUTHERAN UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**

---

*(in thousands)*

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

**Funds with deficiencies** – From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the University to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$6,062 and \$2,172 as of May 31, 2016 and 2015, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the governing board. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets.

**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 10%. 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 5% of a three-year average market value of the principal, on a unit value basis. 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**

(in thousands)

**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:

	<u>2016</u>	<u>2015</u>
Cash and short term investments	6,178	7,645
Commodity funds	1,772	2,550
Mutual Funds	47,683	43,539
Alternative investments:		
Hedge funds	1,948	4,159
Funds of hedge funds	1,174	4,944
Real estate contracts	422	455
Real estate	6,335	6,630
Private equity funds	<u>1,930</u>	<u>2,729</u>
	67,442	72,651
Perpetual trusts held by others	11,451	11,258
Life insurance, at cost	<u>1,607</u>	<u>1,672</u>
	80,500	85,581
Less Interfund Amounts:		
Cash and short term investments, at cost	(3,277)	(2,579)
Real estate contracts, at cost	<u>(422)</u>	<u>(455)</u>
	<u>(3,699)</u>	<u>(3,034)</u>
	<u><u>76,801</u></u>	<u><u>82,547</u></u>

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 that such changes could materially affect the amounts reported in the financial statements.

Through the University's investments in alternative investments, the University is indirectly involved in investment activities such as securities lending, trading in futures and forward contracts and other derivative products. Derivatives are used to adjust portfolio risk exposure or enhance returns. While these instruments may contain varying degrees of risk, the University's risk with respect to such transactions is limited to its capital balance in each investment. These interests have varying degrees of liquidity.

**PACIFIC LUTHERAN UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**

(in thousands)

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

Net assets released from temporary donor restrictions 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:

	2016	2015
Expended for plant facilities	\$ 1,557	\$ 62
Scholarships, instruction and other departmental support	4,821	9,305
	<u>\$ 6,378</u>	<u>\$ 9,367</u>

These assets were reclassified to unrestricted net assets.

**Note 9 – Long-Term Debt**

Long-term debt at May 31 consisted of the following:

	2016	2015
Loan Payable to Washington Higher Ed Facilities Authority, Series 2006	\$ 51,765	\$ 53,165
Authority, Series 2014	10,000	10,000
Note payable to an individual	50	66
	<u>\$ 61,815</u>	<u>\$ 63,231</u>

**Series 2006** – In December 2006, the University entered into a loan and security agreement with the Washington Higher Education Facilities Authority for the Authority to sell Series 2006 Revenue and Refunding Bonds in the amount of \$62,160. Interest is payable semi-annually on each November 1 and May 1 at rates ranging from 4.25% to 5.00%. Serial bonds are payable in amounts ranging from \$1,330 to \$2,300 on November 1, 2014 through November 1, 2025. Term bonds in the amounts of \$16,085 and \$17,080 are due November 1, 2031 and 2036, respectively. The term bonds are subject to annual sinking fund payments on November 1, in the years 2026 to 2036, in amounts varying from \$2,400 to \$3,730. The bonds were issued for the purposes of refinancing the series 1996 and series 1999 loans and for construction and plant improvement projects to the extent that proceeds were available. The University has pledged its unrestricted revenues to the repayment of its obligations under the loan agreement.

**Series 2014** – In June 2014, the Washington Higher Education Facilities Authority 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. The Series 2014 Revenue Bonds consist of term bonds of \$5,800 maturing on November 1, 2041 and \$4,200 maturing on November 1, 2044. The term bonds have interest rates of 4.625% to 5.25%, respectively. The term bonds are subject to annual sinking fund payments on November 1 in the years 2037 through 2044 in amounts varying from \$1,055 to \$1,475.

**PACIFIC LUTHERAN UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**

(in thousands)

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

The bonds are secured by a pledge of, and lien on, all unrestricted revenues and the University's interest, if any, in the Project Fund and the Debt Service Fund.

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

**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 through February 1, 2018.

The 2006 Bonds were refinanced subsequent to the fiscal year end (see note 16) and the approximate principal and sinking fund payment requirements reflect the new terms for all long-term debt for the five years subsequent to May 31, 2016 are:

<u>Year Ended May 31</u>	<u>Principal</u>
2017	\$ 18
2018	1,359
2019	1,392
2020	1,420
2021	1,465
Thereafter	53,291
	<u>\$ 58,945</u>

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

	<u>2016</u>	<u>2015</u>
Land	\$ 762	\$ 1,938
Buildings	165,687	155,364
Improvements other than buildings	8,722	8,722
Equipment & vehicles	14,338	35,388
Library books	5,823	12,394
Leasehold improvements	3,152	1,841
Nondepreciated assets	1,236	1,236
Construction In Progress	398	6,165
	<u>200,118</u>	<u>223,048</u>
Less accumulated depreciation and amortization	<u>(74,914)</u>	<u>(98,024)</u>
	<u>\$ 125,204</u>	<u>\$ 125,024</u>

The University has written off certain equipment and library assets that are fully depreciated and obsolete in the amount of \$28,433.



## **PACIFIC LUTHERAN UNIVERSITY**

### **NOTES TO FINANCIAL STATEMENTS**

---

*(in thousands)*

#### **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 unrestricted, temporarily restricted or permanently restricted net assets, 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 1.2% to 11.60% in making the calculations at May 31, 2016 and 2015, respectively.

The University received \$20 and \$244 of gift value relating to deferred gift agreements for the years ended May 31, 2016 and 2015, respectively. Total assets held by the University under deferred gift agreements totaled \$12,232 and \$13,252 at May 31, 2016 and 2015 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 under split-interest agreement on the statement of financial position was \$2,244 and \$2,633 respectively, as of May 31, 2016 and 2015.

#### **Note 12 – Operating Leases**

The University has an operating lease for equipment, which expired in June 2015. The University also has three building facility leases. One lease term expires in January 2022 with an option to renew for up to seven five-year lease terms. The other lease term expires in October 2017. Rental expense under these leases totaled \$785 and \$517 for the years ended May 31, 2016 and 2015, respectively.

KPLU-FM Pacific Lutheran University, a noncommercial radio station owned and operated by the University, has two operating leases for communications equipment and facilities through June 2020 and January 2021, respectively. Rental expense associated with these leases totaled \$297 and \$237 for the years ended May 31, 2016 and 2015, respectively. The leases have been transferred to the new radio station, KNKX as of August 30, 2016 and are no longer future considerations (see note 16).

# PACIFIC LUTHERAN UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS

(in thousands)

### Note 12 – Operating Leases (continued)

Thereafter, future minimum lease payments under operating leases as of May 31, 2016 are:

Year	Amount
2017	\$ 808
2018	753
2019	718
2020	641
2121	550

### Note 13 – 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. As part of the agreement, the University's bookstore became a tenant of the building in the summer of 2007.

Terms of a separate lease agreement between the University, as a lessee and Garfield Commons, as the lessor, commenced at that time. At May 31, 2016 and 2015, the University's investment in Garfield Commons, LLC, totaled \$1,437 and \$1,476, respectively, and is included as real estate in Investments .

**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. A spouse of a member of the University's Board of Regents (the related party) is a partner in GP. In addition, four members of the University's Board of Regents are personally invested in GP. At May 31, 2016 and 2015, the University's investment in Garfield North, LLC, totaled 987 and 579 , respectively and is included as real estate in Investments .

Under the terms of the 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. In addition, and as specified in the partnership agreement, the related party's construction company is acting as the general contractor on the construction contract. Construction on Garfield Station was completed during fiscal year ended May 31, 2015. At May 31, 2016 and 2015, the amount due from Garfield North, LLC, totaled \$ 850 and \$1,000, respectively and is included as other receivables on the statements of financial position.

The University had a contract totaling approximately \$600 with a construction company owned by the spouse of a member of the Board of Regents to complete tenant improvements in University leased property in Garfield Station. The contract was approved in accordance with the Board of Regents' conflict of interest

## **PACIFIC LUTHERAN UNIVERSITY**

### **NOTES TO FINANCIAL STATEMENTS**

---

*(in thousands)*

#### **Note 13 – Related Party Transactions (continued)**

policy. The contract was fulfilled at during the fiscal year ending May 31, 2016 and 2015. Contributions receivable from board members at May 31, 2016 and 2015 were \$ 93 and \$ 30 , respectively. Gifts from board members totaled \$102 and \$192 at May 31, 2016 and 2015, respectively.

#### **Note 14 – 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.

#### **Note 15 – 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 16 – 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.

**PACIFIC LUTHERAN UNIVERSITY**  
**NOTES TO FINANCIAL STATEMENTS**

---

*(in thousands)*

**Note 16 – Subsequent Events (continued)**

In August 2016, the University issued a Refunding Revenue Bond Series 2016 for \$48,933 for the purposes of refunding the WHEFA Series 2006 Revenue and Refunding Bonds. The University has chosen to swap the variable interest rate with a 10 year fixed-rate swap for \$40,000 of the 2016 bond issue.

On June 27, 2016 the University signed an asset purchase agreement (APA) to sell its broadcasting rights and facilities associated with the University's radio station, KPLU, to the Friends of 88.5 FM. The purchase price for KPLU and its assets is set in the APA at \$8 million, comprised of \$7 million in cash and \$1 million of underwriting announcements over 10 years. The sale excludes a number of assets including, but not limited to, equipment and facilities located on the University's campus in Parkland, Washington. The University and the Friends of 88.5 FM closed on this sale August 30, 2016, following the FCC approval.

The University has evaluated subsequent events through December 5, 2016 which is the date the financial statements are available to be issued.