



***NORTHWEST UNIVERSITY AND
NORTHWEST UNIVERSITY FOUNDATION***

Consolidated Financial Statements
For the Year Ended May 31, 2014

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Independent Auditor's Report

The Board of Directors Northwest University and Northwest University Foundation Kirkland, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of Northwest University and Northwest University Foundation (collectively, the University), which comprise the consolidated statement of financial position as of May 31, 2014, and the related consolidated statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

CLARK NUBER

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the University as of May 31, 2014, and its activities and changes in net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the University's 2013 consolidated financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 16, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended May 31, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information, presented on pages 28 to 30 are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2014, on our consideration of the Organization'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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

Clark Nuber P S

Certified Public Accountants
September 15, 2014

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

Consolidated Statement of Financial Position - Assets

May 31, 2014

(With Comparative Totals for 2013)

<i>Assets</i>	<u>2014</u>	<u>2013</u>
Current Assets:		
Cash and cash equivalents	\$ 5,342,763	\$ 5,588,474
Cash and cash equivalents, government student loan program	173,714	282,469
Cash and cash equivalents, limited use	506,260	506,695
Prepaid expenses	264,499	139,557
Accounts receivable	135,355	103,532
Student accounts receivable, less allowance for doubtful accounts of \$610,000 (\$511,000 in 2013)	1,279,848	875,786
Notes receivable, current portion	<u>240,582</u>	<u>84,574</u>
Total Current Assets	7,943,021	7,581,087
Notes receivable, net of current portion	400,460	695,900
Government student loan program receivable	669,546	619,554
Asset held for sale	545,000	545,000
Bond issuance costs, net	307,849	402,565
Investments	13,288,283	11,871,591
Investments held in split interest agreements	4,856,633	4,767,550
Beneficial interest in assets held by other charities	54,942	51,613
Property and equipment, net	<u>47,383,306</u>	<u>48,182,245</u>
Total Assets	<u>\$ 75,449,040</u>	<u>\$ 74,717,105</u>

See accompanying notes.

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

Consolidated Statement of Financial Position - Liabilities and Net Assets

May 31, 2014

(With Comparative Totals for 2013)

<i>Liabilities and Net Assets</i>	<u>2014</u>	<u>2013</u>
Current Liabilities:		
Accounts payable	\$ 1,276,608	\$ 1,031,843
Accrued expenses	1,450,673	1,426,528
Student deposits	840,494	749,502
Deferred revenue	1,941,483	2,286,902
Notes and bonds payable, current portion	<u>1,154,634</u>	<u>1,278,911</u>
Total Current Liabilities	6,663,892	6,773,686
Notes and bonds payable, net of current portion	32,745,801	33,452,288
Interest rate swap agreements	3,379,587	4,032,552
Split interest agreement obligations	3,345,980	3,420,170
Government student loan program	706,794	717,365
Asset retirement obligations	<u>154,726</u>	<u>146,340</u>
Total Liabilities	46,996,780	48,542,401
Net Assets:		
Unrestricted	22,765,460	20,910,888
Temporarily restricted	1,489,723	1,184,587
Permanently restricted	<u>4,197,077</u>	<u>4,079,229</u>
Total Net Assets	<u>28,452,260</u>	<u>26,174,704</u>
Total Liabilities and Net Assets	<u>\$ 75,449,040</u>	<u>\$ 74,717,105</u>

See accompanying notes.

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

**Consolidated Statement of Activities and Changes in Net Assets
For the Year Ended May 31, 2014
(With Comparative Totals for 2013)**

	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>2014 Total</i>	<i>2013 Total</i>
Operating Revenue and Support:					
Tuition and fees	\$ 34,505,414	\$ -	\$ -	\$ 34,505,414	\$ 32,199,378
Less student assistance	(11,786,633)			(11,786,633)	(11,712,066)
	22,718,781			22,718,781	20,487,312
Sales and services of auxiliary enterprises	5,414,646			5,414,646	5,038,661
Government grants	157,243			157,243	169,117
Private gifts and grants	749,299	214,669	90,936	1,054,904	868,216
Interest and dividends, net of investment fees	306,414	76,845		383,259	290,783
Other income	240,936			240,936	428,903
Net assets released from restrictions	296,387	(296,387)			
Total Operating Revenue and Support	29,883,706	(4,873)	90,936	29,969,769	27,282,992
Operating Expenses:					
Program services-					
Instructional	13,076,014			13,076,014	11,721,939
Auxiliary enterprises	3,337,213			3,337,213	3,352,198
Academic support	1,739,993			1,739,993	1,595,399
Student services	5,289,016			5,289,016	6,188,145
Total program services	23,442,236			23,442,236	22,857,681
Support services-					
Institutional support	5,615,953			5,615,953	5,326,730
Fundraising	513,590			513,590	260,527
Total Operating Expenses	29,571,779			29,571,779	28,444,938
Change in Net Assets from Operations	311,927	(4,873)	90,936	397,990	(1,161,946)
Nonoperating Activities:					
Gain on investments	867,982	230,191		1,098,173	1,219,961
Change in value of split- interest agreements	59,873	79,642	23,759	163,274	(109,072)
Change in beneficial interests held by others		176	3,153	3,329	460
Loss on bond retirement costs					(424,189)
Loss on sale of property and equipment	(38,175)			(38,175)	
Change in value of interest rate swap agreements	652,965			652,965	651,630
Change in Net Assets	1,854,572	305,136	117,848	2,277,556	176,844
Net assets, beginning of year	20,910,888	1,184,587	4,079,229	26,174,704	25,997,860
Net Assets, End of Year	\$ 22,765,460	\$ 1,489,723	\$ 4,197,077	\$ 28,452,260	\$ 26,174,704

See accompanying notes.

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

***Consolidated Statement of Cash Flows
For the Year Ended May 31, 2014
(With Comparative Totals for 2013)***

	<u>2014</u>	<u>2013</u>
Cash Flows from Operating Activities:		
Change in net assets	\$ 2,277,556	\$ 176,844
Adjustments to reconcile change in net assets to net cash provided by operating activities-		
Noncash changes:		
Depreciation	2,067,075	1,927,590
Accretion of asset retirement obligations	8,386	107,061
Amortization of bond issuance costs	94,716	76,332
Loss on bond retirement costs		424,189
Net realized and unrealized gain on investments	(1,098,173)	(1,219,961)
Change in beneficial interest in assets held by other charities	(3,329)	460
Change in split interest agreements	(163,274)	109,072
Change in value of interest rate swap agreements	(652,965)	(651,630)
Loss on sale of property and equipment	38,175	
Change in operating assets and liabilities:		
Prepaid expenses	(70,004)	309,843
Accounts receivable	(31,823)	61,731
Student accounts receivable	(404,062)	(47,209)
Government student loan program receivable	(49,992)	72,134
Accounts payable	244,765	13,772
Accrued expenses	24,145	144,185
Student deposits	90,992	266,330
Deferred revenue	(345,419)	233,094
Net Cash Provided by Operating Activities	2,026,769	2,003,837
Cash Flows from Investing Activities:		
Purchase of property and equipment	(1,390,039)	(1,217,770)
Proceeds from sales of property and equipment	83,728	
Purchase of investments	(3,603,809)	(3,629,088)
Proceeds from sales of investments	3,393,089	3,564,130
Payments received on notes receivable	84,494	12,809
Issuance of notes receivable		(350,000)
Net Cash Used by Investing Activities	(1,432,537)	(1,619,919)

See accompanying notes.

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

Consolidated Statement of Cash Flows (Continued)
For the Year Ended May 31, 2014
(With Comparative Totals for 2013)

	<u>2014</u>	<u>2013</u>
Cash Flows from Financing Activities:		
Payments of bonds and notes payable	(944,563)	(76,228)
Redemption of bonds payable		(31,485,000)
Proceeds from issuance of bonds payable		31,332,297
Proceeds from issuance of notes payable	113,799	
Bond refinancing costs		(473,602)
Beneficial payments made for charitable remainder trusts and gift annuities	(107,798)	(241,150)
Decrease in government student loan program liability	<u>(10,571)</u>	<u>(8,636)</u>
Net Cash Used by Financing Activities	<u>(949,133)</u>	<u>(952,319)</u>
Net Change in Cash and Cash Equivalents	(354,901)	(568,401)
Cash and cash equivalents, beginning of year	<u>6,377,638</u>	<u>6,946,039</u>
Cash and Cash Equivalents, End of Year	<u>\$ 6,022,737</u>	<u>\$ 6,377,638</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	\$ 1,480,242	\$ 1,508,884
Noncash decrease in accounts receivable - contribution of inventory	\$ 54,938	\$ -
Reconciliation of Cash Balances:		
Cash and cash equivalents	\$ 5,342,763	\$ 5,588,474
Cash and cash equivalents, government student loan program	173,714	282,469
Cash and cash equivalents, limited use	<u>506,260</u>	<u>506,695</u>
Total Cash and Cash Equivalents	<u>\$ 6,022,737</u>	<u>\$ 6,377,638</u>

See accompanying notes.

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

Notes to Consolidated Financial Statements For the Year Ended May 31, 2014

Note 1 - Nature of Operations

Northwest University was incorporated on July 18, 1952, under the laws of the State of Washington. Northwest University is a Christian co-educational institution, located on a 57-acre campus in Kirkland, Washington, under the control of the Alaska, Montana, Northwest, Oregon, Southern Idaho, Wyoming, North Pacific Latin American, Northern California/Nevada, and Northwest Hispanic districts of the Assemblies of God. The University is operated as a Christian university offering doctoral, masters, bachelors, and associates degrees as well as certificates in religious, ministerial, liberal arts, and professional studies. The University also offers courses at extension sites in Sacramento, California; Salem, Oregon; and Nampa, Idaho.

Northwest University Foundation (the Foundation) was established on June 1, 1992, to secure, receive, and administer gifts of money, real estate, and tangible and intangible property on behalf of the University.

Principles of Consolidation - The consolidated financial statements include the accounts of Northwest University and Northwest University Foundation (collectively, the University). All significant inter-organization transactions have been eliminated.

Note 2 - Summary of Significant Accounting Policies

Basis of Accounting - The consolidated financial statements of the University have been prepared on the accrual basis of accounting.

Basis of Presentation - Net assets, revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the University and changes therein are classified and reported as follows:

Unrestricted Net Assets - Net assets on which there are no donor-imposed restrictions for use or such donor-imposed restrictions were temporary and expired or were met during the current or previous years.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed restrictions that will be met either by actions of the University, the passage of time, or representing the accumulated unappropriated earnings on endowment funds.

Permanently Restricted Net Assets - Net assets subject to donor-imposed restrictions to be maintained permanently by the University.

All contributions are considered available for unrestricted use unless specifically restricted by the donor or subject to legal restrictions. For contributions restricted by donors for property or other long lived assets, the restriction is considered to be met when the property or other long-lived asset is placed into service.

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

Notes to Consolidated Financial Statements For the Year Ended May 31, 2014

Note 2 - Continued

Revenue Recognition -

Tuition and Fees - Tuition and fees are recognized as revenue when they are earned.

Sales and Services of Auxiliary Enterprises - Revenue is recognized when the sale occurs or the service is provided.

Private Gifts and Grants - Private gifts and grants are recognized in the period received, including unconditional pledges when promised, at their fair value.

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

Operating Activities - The consolidated statement of activities and changes in net assets includes a measure of change in net assets from operating activities. Changes in net assets which are excluded from operating results include realized and unrealized gains and losses on investments, the actuarial gains and losses on trusts and annuities, the unrealized gain or loss on interest rate swap agreements, losses on the sale of property and equipment, and losses related to debt retirement.

Cash and Cash Equivalents - Cash and cash equivalents consist of cash on hand and highly liquid short-term investments with original maturities of three months or less. At times, the University maintains amounts in banks that are in excess of the federally insured limits.

Limited Use Cash and Cash Equivalents - The University has funds in an account with its primary bank consisting of monthly deposits that are required as a bond sinking fund to make principal payments on bonds payable as they become due each year on September 1. The required deposit each month is one-twelfth of the principal payment that will be due the following September.

Accounts Receivable and Student Accounts Receivable - The University extends credit to a substantial portion of its students and other revenue sources. Accounts receivable and student accounts receivable are recorded at their original amount. An allowance for doubtful accounts is maintained for estimated losses resulting from review of past due balances, historical write-off experience, and economic data. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The University has established credit policies, and historically the losses related to nonpayment have been low as a percentage of net program revenue.

Contributions and Promises to Give - Contributions received, including unconditional promises to give, are recognized as revenue when the donor's promise is received. Unconditional promises made and collected in the same reporting period are recorded as revenue when cash is received. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on these amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in private gift support. Conditional promises are recognized when donor stipulations are substantially met. Faith pledges, which include the words "as the Lord enables" or similar wording, are considered to be conditional promises and these are recognized as revenue when cash is received. Contributions of noncash assets are recorded at their fair value. Contributions are reported as increases in the appropriate category of net assets. Contributions where the restrictions are met within the same fiscal year as the contribution are included in unrestricted net assets.

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

Notes to Consolidated Financial Statements For the Year Ended May 31, 2014

Note 2 - Continued

Notes Receivable - Notes receivable consist of notes for real estate that has been sold on contract and a note to the company with which the University has contracted to operate the campus bookstore. The University has not experienced any losses related to these notes; therefore, an allowance for uncollectible notes receivable was not considered necessary as of May 31, 2014 and 2013. Notes receivable represent .9% and 1% of total assets, respectively, and there were no amounts past due as of May 31, 2014 and 2013. The note receivable related to the campus bookstore became current as of May 31, 2014, when the contracted company elected to cancel its agreement to operate the bookstore.

Asset Held for Sale - Asset held for sale consists of undeveloped property located in Lynnwood, Washington and is reported at fair value.

Government Student Loan Program - Government student loan program receivable consists primarily of loans made to students under the Federal Perkins Loan program. The loans are stated at net realizable value on the consolidated statement of financial position. Loan payments received and held in cash are reflected as cash and cash equivalents, government student loan program, on the consolidated statement of financial position. The majority of government student loan funds are provided by the U.S. government and one-third of the loan funds is provided by the University. The portion of these loans that is refundable to the U.S. government is reflected as government student loan program liability on the consolidated statement of financial position.

Bond Issuance Costs - Bond issuance costs are amortized over the outstanding obligation period using the straight-line method and are reported net of the related accumulated amortization on the consolidated statement of financial position. During the year ended May 31, 2013, the University's bonds were redeemed and new bonds were issued (Note 8). Bond issuance costs on the new bonds totaled \$473,602, and related amortization on these costs totaled \$94,716 and \$70,237 for the years ended May 31, 2014 and 2013, respectively. Unamortized bond issuance costs on the redeemed bonds totaling \$424,189 were fully expensed during the year ended May 31, 2013, and are reported as a nonoperating loss on the consolidated statement of activities.

Investments - Investments consist of marketable debt and equity securities, interest in real estate investments and mineral rights, Alaska native stocks and real estate. Investments in marketable securities are stated at fair value. Investments in mineral rights, Alaska native stocks and real estate are stated at the lower of cost or net realizable value.

Split Interest Agreements - Under split interest agreements, donors enter into trust arrangements with the University in which the University receives benefits that are shared with other beneficiaries. Some are held by the University and others are held by third-party trustees.

For those agreements in which the University is trustee, contribution revenue from charitable gift annuities and charitable remainder trusts is recognized at fair value on the date the agreement is established, net of the liability recorded for the present value of the estimated future payments due to beneficiaries. These liabilities were calculated using discount rates commensurate with the risks involved at the date of agreement, ranging from 5.0% to 9.0%, and overestimated lives based on life expectancy tables provided by the Internal Revenue Service (IRS). Balances are adjusted during the terms of the agreements for changes in the value of the assets held, accretion of discounts, and changes in the life expectancies of the donors.

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

Notes to Consolidated Financial Statements For the Year Ended May 31, 2014

Note 2 - Continued

The University is also the beneficiary of multiple charitable remainder trusts and charitable gift annuities that are held by the Assemblies of God Financial Services (AGF) in Springfield, Missouri. The fair values of the trusts are recognized as assets and contribution revenues at the dates the trusts are established based on the present value of the estimated future benefits to be received when the trust is distributed. No liability is recorded on the consolidated statement of financial position of the University because AGF is the liable party in these arrangements. Adjustments to the net amount to be received are recorded as changes in split interest agreements in the consolidated statement of activities and changes in net assets.

In addition, the University is the beneficiary of a life estate held by a third-party trustee. The fair value of the life estate was recognized as an asset and contribution revenue at the date it was established. Distributions from the life estate are recorded as investment income and the assets are adjusted for changes in the fair value of the estate assets held in trust.

Restrictions associated with split interest agreements are based on the use specified by the donor of the ultimate distributions. Changes in split interest agreements follow the restrictions on the underlying net assets.

Estates and Trusts - The University is named as beneficiary of various estates in probate. The University does not record amounts available for distribution until the point of asset distribution unless the ultimate amount available for distribution can be determined before the close of the probate proceedings. Trusts in which the University is named as the irrevocable beneficiary, but is not the trustee, are recorded when the University is notified by the trustee and the ownership percentage and valuation are determined.

Property, Equipment, and Depreciation - Buildings and equipment are stated at cost, if purchased, or at fair value as of the date contributed. The University capitalizes land, buildings, and equipment with a cost or, if donated, estimated fair value of at least \$2,000 (\$500 for years prior to 2014). Buildings and equipment are depreciated on the straight-line method over estimated economic lives ranging from 5 to 50 years.

Student Deposits - Student deposits are deposits received from students for housing and for student sponsored events and groups.

Deferred Revenue - Deferred revenue represent funds the University received in fiscal year 2014 and 2013, for services to be delivered during the next fiscal year. Also included is an amount related to music studio equipment from a local church received in exchange for the use of the studio, once it is established and operating. This agreement allows the church to use the studio for 520 hours per year for 15 years without charge. The deferred revenue was recorded at the present value of the future use of the studio, \$297,996. The liability is reduced each year by the value of the amount of time the studio was used by the church. Deferred revenue remaining for this agreement totaled \$218,530 and \$238,397 as of May 31, 2014 and 2013, respectively.

Funds Held for Others - Funds held for others represents the present value of the liability for the portion of assets held in charitable remainder trusts for the benefit of other organizations.

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

Notes to Consolidated Financial Statements For the Year Ended May 31, 2014

Note 2 - Continued

Asset Retirement Obligations - Accounting principles generally accepted in the United States of America (U.S. GAAP) require an organization to recognize a liability for the fair value of a conditional asset retirement obligation if the liability can be reasonably estimated. For the University, these obligations are primarily for the disposal of asbestos and other materials found on campus. Though these materials do not currently pose a health hazard in any of the University facilities, appropriate remediation procedures may be required to remove the materials upon renovation or demolition. The University has recorded a liability for asset retirement obligations on the consolidated statement of financial position.

Income Taxes - The IRS has determined that the University and Foundation are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. There are open tax years that are subject to IRS review; however, management has determined that no provision for uncertain tax positions was required at May 31, 2014 and 2013.

Functional Allocation of Expenses - The costs of providing the University's various programs and activities have been summarized on a functional basis and are shown on the consolidated statement of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting activities benefited.

Advertising - The University uses advertising to recruit prospective students. Advertising costs are expensed as incurred. Advertising expense for the years ended May 31, 2014 and 2013, was \$286,311 and \$368,691, respectively.

Use of Estimates - The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

Prior Year Summarized Information - The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the University's financial statements for the year ended June 30, 2013, from which the summarized information was derived.

Subsequent Events - The Organization has evaluated subsequent events through September 15, 2014, the date on which the consolidated financial statements were issued.

Note 3 - Government Student Loan Program Receivable

The University makes uncollateralized loans to students based on financial need. Student loans are funded through the Federal Perkins Loan program and institutional resources. There are no loans deemed by management to be impaired, and no modifications to loan terms have been executed by the University. Therefore, an allowance for uncollectible student loans was not considered necessary as of May 31, 2014 and 2013.

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

**Notes to Consolidated Financial Statements
For the Year Ended May 31, 2014**

Note 3 - Continued

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

	<u>May 31, 2014</u>		<u>May 31, 2013</u>	
	<u>Perkins</u>	<u>Percent of Total Loan Portfolio</u>	<u>Perkins</u>	<u>Percent of Total Loan Portfolio</u>
Good standing- Deferred:				
Not in repayment	\$ 284,404	42.48%	\$ 215,459	34.78%
Repayment on schedule	169,906	25.38%	186,835	30.16%
	454,310	67.86%	402,294	64.93%
Past due-				
Not defaulted less than 240 days	31,484	4.70%	37,800	6.10%
Default greater than 240 but less than 2 years	183,752	27.44%	179,460	28.97%
	215,236	32.14%	217,260	35.07%
Total Government Student Loan Program Receivable	\$ 669,546	100.00%	\$ 619,554	100.00%

Note 4 - Investments

University investments consisted of the following at May 31:

	<u>2014</u>	<u>2013</u>
Investments at fair value-		
Equity mutual funds	\$ 6,075,523	\$ 4,659,723
Bond mutual funds	240,740	498,235
Common stocks	3,036,757	2,593,603
Term loan certificates	1,832,210	1,796,367
Government backed securities	1,905,717	2,056,887
Total investments at fair value	13,090,947	11,604,815
Investments at cost or net realizable value-		
Cash	163,236	232,676
Mineral rights	26,600	26,600
Alaska native stocks	7,500	7,500
Total investments at cost or net realizable value	197,336	266,776
Total Investments	\$ 13,288,283	\$ 11,871,591

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

***Notes to Consolidated Financial Statements
For the Year Ended May 31, 2014***

Note 4 - Continued

Investment return on University investments consisted of the following at May 31:

	<u>2014</u>	<u>2013</u>
Realized and unrealized gains on investments	\$ 1,098,173	\$ 1,219,961
Interest and dividends	414,594	312,126
Investment fees and expenses	<u>(31,335)</u>	<u>(21,343)</u>
Investment Return	<u>\$ 1,481,432</u>	<u>\$ 1,510,744</u>

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

	<u>2014</u>	<u>2013</u>
Investments at fair value-		
Equity mutual funds	\$ 828,506	\$ 810,144
Bond mutual funds	869,800	779,150
Common stocks	320,773	276,660
Government backed securities	121,750	148,547
Pooled loan funds	2,431,516	2,464,225
Life estate	<u>117,782</u>	<u>104,688</u>
Total investments at fair value	4,690,127	4,583,414
Investments at cost-		
Cash	158,506	176,136
Real estate	<u>8,000</u>	<u>8,000</u>
Total investments at cost	<u>166,506</u>	<u>184,136</u>
Total Investments Held in Split-Interest Agreements	<u>\$ 4,856,633</u>	<u>\$ 4,767,550</u>

Note 5 - Fair Value Measurements

U.S. GAAP establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

***Notes to Consolidated Financial Statements
For the Year Ended May 31, 2014***

Note 5 - Continued

The three levels of the fair value hierarchy are described as follows:

Level 1 - Unadjusted quoted prices available in active markets for identical assets or liabilities;

Level 2 - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; or

Level 3 - Unobservable inputs that are significant to the fair value measurement.

A financial instrument's level within the fair value hierarchy is based upon the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. The University's financial instruments were valued using a market approach.

The following is a description of the valuation methodologies used for assets measured at fair value on a recurring basis. There have been no changes in the methodologies used at May 31, 2014 and 2013.

Equity and Bond Mutual Funds - Valued at quoted market prices in active markets, which represent the net asset value of shares held by the University at year-end.

Common Stocks - Valued at the closing price reported on the active market on which the stocks are traded.

Term Loan Certificates - Valued using quoted prices in active markets for similar instruments.

Government Backed Securities - Valued at quoted market prices in active markets.

Pooled Loan Funds - Valued at quoted prices based on similar assets in active markets.

Life Estate - Determined by calculating the present value of the future distributions expected to be received, using published life expectancy tables and a 6% discounted rate.

Interest Rate Swap Agreements - Valued using market data from rating services and evaluated using proprietary pricing models.

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

**Notes to Consolidated Financial Statements
For the Year Ended May 31, 2014**

Note 5 - Continued

University investments and liabilities recorded at fair value on a recurring basis are as follows at May 31, 2014:

	<i>Fair Value Measurements at May 31, 2014</i>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
University Investments:				
Equity mutual funds-				
Large cap growth funds	\$ 2,597,125	\$ -	\$ -	\$ 2,597,125
Large cap value funds	285,435			285,435
Large blend funds	1,853,814			1,853,814
Mid cap growth funds	427,973			427,973
Mid cap blend funds	340,772			340,772
Small cap value funds	134,071			134,071
Small cap blend funds	255,589			255,589
International funds	180,744			180,744
Total equity mutual funds	6,075,523			6,075,523
Bond mutual funds	240,740			240,740
Total mutual funds	6,316,263			6,316,263
Common stocks-				
Large cap	2,825,494			2,825,494
Mid cap	127,413			127,413
Small cap	83,850			83,850
Total common stocks	3,036,757			3,036,757
Term loan certificates		1,832,210		1,832,210
Government backed securities	1,905,717			1,905,717
Total Investments at Fair Value	<u>\$ 11,258,737</u>	<u>\$ 1,832,210</u>	<u>\$ -</u>	<u>\$ 13,090,947</u>
University Liabilities:				
Interest rate swap agreements	\$ -	\$ -	\$ 3,379,587	\$ 3,379,587
Total Liabilities at Fair Value	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,379,587</u>	<u>\$ 3,379,587</u>

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

**Notes to Consolidated Financial Statements
For the Year Ended May 31, 2014**

Note 5 - Continued

University investments and liabilities recorded at fair value on a recurring basis are as follows at May 31, 2013:

	<i>Fair Value Measurements at May 31, 2013</i>			
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
University Investments:				
Equity mutual funds-				
Large cap growth funds	\$ 1,800,977	\$ -	\$ -	\$ 1,800,977
Large cap value funds	373,473			373,473
Large blend funds	1,366,464			1,366,464
Mid cap growth funds	504,871			504,871
Mid cap blend funds	155,012			155,012
Small cap value funds	94,370			94,370
Small cap blend funds	250,821			250,821
International funds	113,735			113,735
Total equity mutual funds	4,659,723			4,659,723
Bond mutual funds	498,235			498,235
Total mutual funds	5,157,958			5,157,958
Common stocks-				
Large cap	2,181,945			2,181,945
Mid cap	253,480			253,480
Small cap	158,178			158,178
Total common stocks	2,593,603			2,593,603
Term loan certificates		1,796,367		1,796,367
Government backed securities	2,056,887			2,056,887
Total Investments at Fair Value	\$ 9,808,448	\$ 1,796,367	\$ -	\$ 11,604,815
University Liabilities:				
Interest rate swap agreements	\$ -	\$ -	\$ 4,032,552	\$ 4,032,552
Total Liabilities at Fair Value	\$ -	\$ -	\$ 4,032,552	\$ 4,032,552

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

**Notes to Consolidated Financial Statements
For the Year Ended May 31, 2014**

Note 5 - Continued

Trusts and annuities investment assets recorded at fair value on a recurring basis are as follows at May 31, 2014:

	<i>Fair Value Measurements at May 31, 2014</i>			
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Investments Held in Charitable Remainder Trusts and Annuities:				
Equity mutual funds-				
Large cap growth funds	\$ 53,309	\$ -	\$ -	\$ 53,309
Large cap value funds	18,967			18,967
Large blend funds	227,160			227,160
Mid cap blend funds	89,387			89,387
Small cap blend funds	66,452			66,452
International funds	373,231			373,231
Total equity mutual funds	828,506			828,506
Bond mutual funds	869,800			869,800
Total mutual funds	1,698,306			1,698,306
Common stocks - large cap	320,773			320,773
Government backed securities	121,750			121,750
Pooled loan funds		2,431,516		2,431,516
Life estate			117,782	117,782
Total Trust and Annuities Assets at Fair Value	\$ 2,140,829	\$ 2,431,516	\$ 117,782	\$ 4,690,127

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

**Notes to Consolidated Financial Statements
For the Year Ended May 31, 2014**

Note 5 - Continued

Trusts and annuities investment assets recorded at fair value on a recurring basis are as follows at May 31, 2013:

	<i>Fair Value Measurements at May 31, 2013</i>			
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Investments Held in Charitable Remainder Trusts and Annuities:				
Equity mutual funds-				
Large cap growth funds	\$ 57,375	\$ -	\$ -	\$ 57,375
Large cap value funds	19,342			19,342
Large blend funds	227,869			227,869
Mid cap blend funds	84,194			84,194
Small cap blend funds	68,923			68,923
International funds	352,441			352,441
Total equity mutual funds	810,144			810,144
Bond mutual funds	779,150			779,150
Total mutual funds	1,589,294			1,589,294
Common stocks - large cap	276,660			276,660
Government backed securities	148,547			148,547
Pooled loan funds		2,464,225		2,464,225
Life estate			104,688	104,688
Total Trust and Annuities Assets at Fair Value	\$ 2,014,501	\$ 2,464,225	\$ 104,688	\$ 4,583,414

A reconciliation of the beginning and ending balances, by each major category of assets and liabilities, for fair value measurements made on a recurring basis using significant unobservable inputs (Level 3), is as follows at May 31, 2014 and 2013:

	<i>Fair Value Measurements as of May 31</i>				
	<i>Life Estate</i>	<i>Interest Rate</i>		<i>2014 Total Level 3</i>	<i>2013 Total Level 3</i>
		<i>Swap Agreements</i>			
Beginning balance	\$ 104,688	\$ (4,032,552)	\$ (3,927,864)	\$ (4,585,100)	
Unrealized gains	13,094	652,965	666,059	657,236	
Total Assets and Liabilities at Level 3	\$ 117,782	\$ (3,379,587)	\$ (3,261,805)	\$ (3,927,864)	

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

**Notes to Consolidated Financial Statements
For the Year Ended May 31, 2014**

Note 6 - Split Interest Agreements

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

	<u>2014</u>	<u>2013</u>
Split interest agreement investments (Note 4)-		
Charitable remainder trusts	\$ 4,280,940	\$ 4,254,141
Charitable gift annuities	457,911	408,721
Life estate	<u>117,782</u>	<u>104,688</u>
Total split interest agreement investments	4,856,633	4,767,550
Beneficial interests in agreements held by AGF	54,942	51,613
Liabilities due under split interest agreements-		
Charitable remainder trusts	(2,803,236)	(2,879,356)
Charitable trust funds held for others	(255,641)	(243,028)
Charitable gift annuities	<u>(287,103)</u>	<u>(297,786)</u>
Total liabilities due under split interest agreements	<u>(3,345,980)</u>	<u>(3,420,170)</u>
Total Split Interest Agreement Net Assets	<u>\$ 1,565,595</u>	<u>\$ 1,398,993</u>

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

	<u>Trusts</u>	<u>Annuities</u>	<u>Other</u>	<u>2014 Total</u>	<u>2013 Total</u>
Change in assets-					
Return on investments	\$ 90,287	\$ 93,500	\$ 13,094	\$ 196,881	\$ 392,298
Transfers in					25,000
Payments to trust beneficiaries or annuitants	(63,488)	(44,310)		(107,798)	(241,150)
Change in beneficial interests, net			3,329	3,329	(460)
Change in liabilities-					
Change in actuarial liabilities, net	12,632	(33,627)		(20,995)	(581,309)
Change in funds held for others, net	(12,613)			(12,613)	80,859
Payments to trust beneficiaries or annuitants	<u>63,488</u>	<u>44,310</u>		<u>107,798</u>	<u>241,150</u>
Net Change During the Year	90,306	59,873	16,423	166,602	(83,612)
Total split interest net assets, beginning of year	<u>1,131,757</u>	<u>110,935</u>	<u>156,301</u>	<u>1,398,993</u>	<u>1,482,605</u>
Total Split Interest Net Assets, End of Year	<u>\$ 1,222,063</u>	<u>\$ 170,808</u>	<u>\$ 172,724</u>	<u>\$ 1,565,595</u>	<u>\$ 1,398,993</u>

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

**Notes to Consolidated Financial Statements
For the Year Ended May 31, 2014**

Note 7 - Property and Equipment

Property and equipment consisted of the following at May 31:

	<u>2014</u>	<u>2013</u>
Land	\$ 3,307,918	\$ 3,307,918
Buildings and improvements	56,015,976	56,078,019
Equipment	7,183,937	9,340,619
Construction in progress	<u>86,169</u>	<u>70,240</u>
	66,594,000	68,796,796
Less accumulated depreciation and amortization	<u>(19,210,694)</u>	<u>(20,614,551)</u>
Property and Equipment, Net	<u>\$ 47,383,306</u>	<u>\$ 48,182,245</u>

Depreciation expense for the years ended May 31, 2014 and 2013, totaled \$2,067,075 and \$1,927,590, respectively.

Note 8 - Notes and Bonds Payable

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

	<u>2014</u>	<u>2013</u>
Unsecured notes payable to various churches, church associations, and church members of the Assemblies of God, interest rates from 1.0% to 5.0%, various maturities from 2014 to 2019 (Note 11).	\$ 3,245,435	\$ 3,436,199
Public Finance Authority Tax-Exempt Educational Facilities Refunding Bonds, Series 2012A, issued through the State of Wisconsin. Variable interest is based on the 1-month LIBOR Index Rate, rate of 1.615% and 1.669% through September 3, 2014 and 2013, recalculated periodically. The bonds expire at various dates with final maturity on September 1, 2037.	27,150,000	27,150,000
Public Finance Authority Taxable Educational Facilities Refunding Bonds, Series 2012B, issued through the State of Wisconsin. Variable interest is based on the 1-month LIBOR Index Rate, rate of 2.421% and 2.504% through September 3, 2014 and 2013, respectively, recalculated periodically. The bonds expire at various dates with final maturity on September 2, 2018.	<u>3,505,000</u>	<u>4,145,000</u>
	33,900,435	34,731,199
Less portion due within one year	<u>(1,154,634)</u>	<u>(1,278,911)</u>
Notes and Bonds Payable, Long-Term Portion	<u>\$ 32,745,801</u>	<u>\$ 33,452,288</u>

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

Notes to Consolidated Financial Statements For the Year Ended May 31, 2014

Note 8 - Continued

On August 1, 2012, the University received \$31,295,000 from the proceeds of the sale of Public Finance Authority Tax-Exempt Educational Facilities Revenue Refunding Bonds (Series 2012A Bonds) totaling \$27,150,000 and Public Finance Authority Taxable Educational Facilities Revenue Refunding Bonds (Series 2012B Bonds) totaling \$4,145,000. The bonds were issued through the State of Wisconsin. Payment of principal and interest on the bonds is secured by a first deed of trust on the University campus and related facilities. The bond documents contain restrictive covenants that, among other things, require the achievement of certain financial ratios. The University was in compliance with the bond covenants at May 31, 2014.

The variable rate bonds bear interest that is determined by a weekly auction. This interest rate is hedged with interest rate swap agreements at fixed rates of 2.91% and 4.91% (Note 9). Required sinking fund payments are due monthly and are reported as limited use cash and cash equivalents on the consolidated statement of financial position.

The following debt was redeemed on August 31, 2012, with the proceeds of the bonds described above:

- On October 4, 2007, the Colorado Educational and Cultural Facilities Authority (the Authority) issued \$28,265,000 in Adjustable Rate Demand Revenue Bonds (CECFA Bonds) for the purpose of providing funds to purchase a note issued by the University under a trust indenture. The University used the proceeds for the acquisition, construction, and equipping of certain capital improvements, and refinance of certain prior indebtedness. The CECFA Bonds were payable with various installments beginning September 1, 2018 thru September 1, 2037. Interest was payable monthly, based on the weekly variable SIFMA index.
- On October 4, 2007, the University issued \$5,320,000 in Adjustable Rate Demand Taxable Revenue Bonds (NU Taxable Bonds), with an interest rate equal to the weekly variable 1-month LIBOR rates. The University used the NU Taxable Bonds proceeds to refinance certain prior indebtedness. The NU Taxable Bonds were payable in annual installments beginning September 1, 2011 through September 1, 2018. Interest was payable monthly.

Principal maturities for notes and bonds payable are as follows:

For the Year Ending May 31,

2015	\$ 1,154,634
2016	2,295,968
2017	1,510,357
2018	1,202,011
2019	892,465
Thereafter	<u>26,845,000</u>
Total	<u>\$ 33,900,435</u>

Management anticipates that many of the unsecured notes payable will be renewed when they mature. For the year ended May 31, 2014 and 2013, interest expense, including bond fees on the above notes and bonds, totaled \$1,609,962 and \$1,536,452, respectively.

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

Notes to Consolidated Financial Statements For the Year Ended May 31, 2014

Note 9 - Interest Rate Swap Agreements

Effective August 30, 2012, in conjunction with the issuance of the tax-exempt bonds (Note 8), the University renegotiated its existing interest rate swap agreement as a fair value hedge to reduce the impact of changes in the tax-exempt bonds. The swap is for a 10-year period, expiring September 1, 2022, and is based on a fixed rate of 2.91%. The notional amount covered by the swap was \$27,150,000, and the amount outstanding at May 31, 2014 and 2013, was \$26,735,000 and \$27,150,000, respectively.

Effective August 30, 2012, in conjunction with the issuance of the taxable bonds (Note 8), the University maintained its existing interest rate swap agreement as a fair value hedge to reduce the impact of changes in the taxable bonds. The swap is for a six-year period, expiring September 1, 2018, and is based on a fixed rate of 4.91%. The original notional amount covered by the swap was \$5,320,000, and the amount outstanding at May 31, 2014 and 2013, was \$3,505,000 and \$4,145,000, respectively.

U.S. GAAP requires disclosure of this type of arrangement and the losses or gains associated with it in order to show its effectiveness. For the years ended May 31, 2014 and 2013, the University recognized unrealized gains of \$652,965 and \$651,630, respectively, on the value of the swap agreements, which is included in nonoperating activities on the consolidated statement of activities. The valuation of the swap agreements is affected by fluctuations in the floating interest rate and the passage of time to the agreements' maturities. The fair value of the interest rate swaps is reported as a liability on the consolidated statement of financial position.

In addition to the unrealized gain, the University recognized realized losses of \$886,926 and \$953,819 for the difference between the fixed and floating rates during the year ending May 31, 2014 and 2013, respectively, which is included in operating expenses on the consolidated statement of activities.

Note 10 - Retirement Plan

The University offers a Section 403(b) defined contribution plan to eligible employees. Employees may make contributions to the plan from their salaries up to the limits specified by the IRS. The University matches 100% of each employee's deferral contribution up to a maximum of 3% of the employee's salary. The University may also make an annual contribution of 2.5% of each eligible employee's compensation. All funds are fully vested as the contributions are made. Employer contributions to the plan totaled \$481,700 and \$314,500 for the years ended May 31, 2014 and 2013, respectively. The plan was amended, effective October 1, 2012, to implement the employer matching contribution.

Note 11 - Related Party Transactions

Notes payable to various churches, church associations, and church members totaled \$3,245,435 and \$3,436,199 at May 31, 2014 and 2013, respectively. The University paid \$83,412 and \$91,072 in interest to these organizations and members.

AGF manages various cash and investments of the University totaling approximately \$6,640,000 and \$6,100,000 at May 31, 2014 and 2013, respectively. In addition, there are funds that are currently managed by separate investment advisor companies, whereby a member of the Foundation's investment committee is the broker of record for one of the investment advisor companies.

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

Notes to Consolidated Financial Statements For the Year Ended May 31, 2014

Note 11 - Continued

AGF hold certain assets that are recorded on the consolidated statement of financial position as beneficial interest in assets held by other charities. These include charitable remainder unitrusts and charitable gift annuities. The value of these assets, net of related actuarial liability, totaled \$54,942 and \$51,612 at May 31, 2014 and 2013, respectively (Note 6).

Note 12 - Restricted Net Assets

Temporarily restricted net assets are generally available for scholarships to students or have time restrictions for remainder trusts.

Restricted net assets consisted of the following at May 31:

	<u>2014</u>	<u>2013</u>
Temporarily restricted-		
Charitable remainder trusts, time restricted	\$ 838,594	\$ 757,147
Beneficial interests in agreements held by AGF	22,098	21,921
Accumulated earnings on endowments (Note 13)	486,012	308,529
Contributions restricted for other specific purposes	143,019	96,990
Total Temporarily Restricted Net Assets	<u>\$ 1,489,723</u>	<u>\$ 1,184,587</u>
Permanently restricted-		
Charitable remainder trusts and life estates	\$ 501,064	\$ 477,304
Beneficial interests in agreements held by AGF	32,844	29,692
Endowments	3,663,169	3,572,233
Total Permanently Restricted Net Assets	<u>\$ 4,197,077</u>	<u>\$ 4,079,229</u>

Note 13 - Endowment Funds

The University's endowment consists of 85 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the board to function as endowments. As required by U.S. GAAP, net assets associated with endowment funds, including funds designated by the board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The board of directors of the University has reviewed the Washington State Prudent Management of Institutional Funds Act (PMIFA) and, having reviewed its rights and obligations thereunder, has determined that it is desirable to preserve, on a long-term basis, the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this determination, the University classifies as permanently restricted net assets the original value of gifts to the permanent endowment, the original value of subsequent gifts to the permanent endowment, and accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument. 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 PMIFA.

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

**Notes to Consolidated Financial Statements
For the Year Ended May 31, 2014**

Note 13 - Continued

In accordance with PMIFA, the University considers:

- The duration and preservation of the endowment fund;
- The purposes of the institution and the endowment fund;
- General economic conditions;
- The possible effect of inflation or deflation;
- The expected total return from income and the appreciation of investments;
- Other resources of the University; and
- The investment policy of the University.

Endowment net assets consisted of the following at May 31:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2014 Total</u>	<u>2013 Total</u>
Donor restricted endowment funds	\$ (5,750)	\$ 486,012	\$ 3,663,169	\$ 4,143,431	\$ 3,864,371
Board designated endowment funds	2,979,270			2,979,270	2,979,268
Total Endowment Net Assets	<u>\$ 2,973,520</u>	<u>\$ 486,012</u>	<u>\$ 3,663,169</u>	<u>\$ 7,122,701</u>	<u>\$ 6,843,639</u>

Changes in endowment net assets are as follows for the year ended May 31, 2014 and 2013:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2014 Total</u>	<u>2013 Total</u>
Endowment net assets, beginning of year	\$ 2,962,877	\$ 308,529	\$ 3,572,233	\$ 6,843,639	\$ 6,478,764
Endowment investment return-					
Interest and dividends		76,845		76,845	60,930
Realized and unrealized gains		239,033		239,033	338,742
Total endowment investment return		315,878		315,878	399,672
Endowment contributions		11,860	90,936	102,796	116,281
Appropriation of endowment for expenditure		(139,612)		(139,612)	(126,078)
Recovery of underwater amounts	10,643	(10,643)			
Other changes-					
Transfer out of designated fund					(25,000)
Endowment Net Assets, End of Year	<u>\$ 2,973,520</u>	<u>\$ 486,012</u>	<u>\$ 3,663,169</u>	<u>\$ 7,122,701</u>	<u>\$ 6,843,639</u>

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

Notes to Consolidated Financial Statements For the Year Ended May 31, 2014

Note 13 - Continued

Funds With Deficiencies - From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or PMIFA requires the University to retain as a fund of perpetual duration. In accordance with U.S. GAAP, deficiencies of this nature that are reported in unrestricted net assets totaled \$5,750 and \$16,391 at May 31, 2014 and 2013, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that were deemed prudent by the board.

Return Objectives and Risk Parameters - The University has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets included those assets of donor-restricted funds that the organization must hold in perpetuity or for a donor-specified period as well as board-designated funds. Under this policy, as approved by the board, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk. The University expects its endowment funds, over time, to provide an average rate of return of approximately 9 percent annually. Actual returns in any given 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 that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to the Spending Policy - The University has a policy of appropriating for distribution each year 4.5 percent of its endowment fund's average fair value over the prior 36 months through the end of the current fiscal year. In establishing this policy, the University considered the long-term expected return on its endowment. Accordingly, over the long term, the University expects the current spending policy to allow its endowment to grow at an average of 4.5 percent annually. This is consistent with the University's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Note 14 - Commitments and Contingencies

Operating Leases - Northwest University has several operating leases for copiers and printers. All leases will expire by May 31, 2016. Lease payments were recorded as expense in the amount of \$210,710 and \$207,720 for the years ended May 31, 2014 and 2013, respectively. Future minimum lease payments are as follows:

For the Year Ending May 31,

2015	\$	127,200
2016		41,480
Total	\$	168,680

Contingencies - In the normal course of business, the University has various claims in process and other contingencies. In management's opinion, the outcome from these matters will not materially impact the University's financial position or results of activities.

SUPPLEMENTARY INFORMATION

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

Consolidating Schedule of Financial Position - Assets
May 31, 2014
(With Comparative Totals for 2013)

	<u>University</u>	<u>Foundation</u>	<u>2014 Consolidated Total</u>	<u>2013 Consolidated Total</u>
Assets				
Current Assets:				
Cash and cash equivalents	\$ 1,864,952	\$ 3,477,811	\$ 5,342,763	5,588,474
Cash and cash equivalents, government student loan program	173,714		173,714	282,469
Cash and cash equivalents, limited use	506,260		506,260	506,695
Prepaid expenses	264,499		264,499	139,557
Accounts receivable	135,355		135,355	103,532
Student accounts receivable, less allowance for doubtful accounts of \$610,000	1,279,848		1,279,848	875,786
Notes receivable, current portion	232,826	7,756	240,582	84,574
Total Current Assets	4,457,454	3,485,567	7,943,021	7,581,087
Notes receivable, net of current portion	121,320	279,140	400,460	695,900
Government student loan program receivable	669,546		669,546	619,554
Asset held for sale		545,000	545,000	545,000
Bond issuance costs, net	307,849		307,849	402,565
Investments	7,026,339	6,261,944	13,288,283	11,871,591
Investments held in split interest agreements	193,771	4,662,862	4,856,633	4,767,550
Beneficial interest in assets held by other charities		54,942	54,942	51,613
Property and equipment, net	47,383,306		47,383,306	48,182,245
Total Assets	\$ 60,159,585	\$ 15,289,455	\$ 75,449,040	\$ 74,717,105

See independent auditor's report.

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

Consolidating Schedule of Financial Position - Liabilities and Net Assets

May 31, 2014

(With Comparative Totals for 2013)

	<u>University</u>	<u>Foundation</u>	<u>2014 Consolidated Total</u>	<u>2013 Consolidated Total</u>
Liabilities and Net Assets				
Current Liabilities:				
Accounts payable	\$ 1,276,608	\$ -	\$ 1,276,608	\$ 1,031,843
Accrued expenses	1,450,673		1,450,673	1,426,528
Student deposits	840,494		840,494	749,502
Deferred revenue	1,941,483		1,941,483	2,286,902
Notes and bonds payable, current portion	675,000	479,634	1,154,634	1,278,911
Total Current Liabilities	6,184,258	479,634	6,663,892	6,773,686
Notes and bonds payable, net of current portion	29,980,000	2,765,801	32,745,801	33,452,288
Interest rate swap agreements	3,379,587		3,379,587	4,032,552
Split interest agreement obligations	287,102	3,058,878	3,345,980	3,420,170
Government student loan program	706,794		706,794	717,365
Asset retirement obligations	154,726		154,726	146,340
Total Liabilities	40,692,467	6,304,313	46,996,780	48,542,401
Net Assets:				
Unrestricted	19,353,888	3,411,572	22,765,460	20,910,888
Temporarily restricted	113,230	1,376,493	1,489,723	1,184,587
Permanently restricted		4,197,077	4,197,077	4,079,229
Total Net Assets	19,467,118	8,985,142	28,452,260	26,174,704
Total Liabilities and Net Assets	\$ 60,159,585	\$ 15,289,455	\$ 75,449,040	\$ 74,717,105

See independent auditor's report.

NORTHWEST UNIVERSITY AND NORTHWEST UNIVERSITY FOUNDATION

**Consolidating Schedule of Activities and Changes in Net Assets
For the Year Ended May 31, 2014
(With Comparative Totals for 2013)**

	University				Foundation				2014	2013
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Consolidated Total	Consolidated Total
Operating Revenue and Support:										
Tuition and fees	\$ 34,505,414	\$ -	\$ -	\$ 34,505,414	\$ -	\$ -	\$ -	\$ -	\$ 34,505,414	\$ 32,199,378
Less student assistance	(11,786,633)			(11,786,633)					(11,786,633)	(11,712,066)
	22,718,781			22,718,781					22,718,781	20,487,312
Sales and services of auxiliary enterprises	5,414,646			5,414,646					5,414,646	5,038,661
Government grants	157,243			157,243					157,243	169,117
Private gifts and grants	749,299	148,826		898,125		65,843	90,936	156,779	1,054,904	868,216
Interest and dividends	306,414			306,414		76,845		76,845	383,259	290,783
Other income	240,936			240,936					240,936	428,903
Support from Foundation to University	50,902			50,902	(50,902)			(50,902)		
Net assets released from restriction	112,804	(112,804)			183,583	(183,583)				
Total Operating Revenue and Support	29,751,025	36,022		29,787,047	132,681	(40,895)	90,936	182,722	29,969,769	27,282,992
Operating Expenses:										
Program services-										
Instructional	13,076,014			13,076,014					13,076,014	11,721,939
Auxiliary enterprises	3,337,213			3,337,213					3,337,213	3,352,198
Academic support	1,739,993			1,739,993					1,739,993	1,595,399
Student services	5,289,016			5,289,016					5,289,016	6,188,145
Support services-										
Institutional support	5,429,472			5,429,472	186,481			186,481	5,615,953	5,326,730
Fundraising	513,590			513,590					513,590	260,527
Total Operating Expenses	29,385,298			29,385,298	186,481			186,481	29,571,779	28,444,938
Change in Net Assets from Operations	365,727	36,022		401,749	(53,800)	(40,895)	90,936	(3,759)	397,990	(1,161,946)
Nonoperating Activities:										
Gain on investments	441,754			441,754	426,228	230,191		656,419	1,098,173	1,219,961
Change in value of split interest agreements					59,873	79,642	23,759	163,274	163,274	(109,072)
Change in beneficial interests held by others						176	3,153	3,329	3,329	460
Loss on bond retirement costs										(424,189)
Loss on sale of property and equipment	(38,175)			(38,175)					(38,175)	
Change in value of interest rate swap agreement	652,965			652,965					652,965	651,630
Change in Net Assets	1,422,271	36,022		1,458,293	432,301	269,114	117,848	819,263	2,277,556	176,844
Net assets, beginning of year	17,931,617	77,208		18,008,825	2,979,271	1,107,379	4,079,229	8,165,879	26,174,704	25,997,860
Net Assets, End of Year	\$ 19,353,888	\$ 113,230	\$ -	\$ 19,467,118	\$ 3,411,572	\$ 1,376,493	\$ 4,197,077	\$ 8,985,142	\$ 28,452,260	\$ 26,174,704

See independent auditor's report.