



Report of Independent Auditors  
and Consolidated Financial Statements  
with Supplementary Information for

## California Lutheran University and Affiliate

May 31, 2016 and 2015

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## REPORT OF INDEPENDENT AUDITORS

The Board of Regents  
California Lutheran University and Affiliate

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

We have audited the accompanying consolidated financial statements of California Lutheran University and Affiliate, which comprise the consolidated statement of financial position as of May 31, 2016, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

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

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

**MOSS ADAMS** LLP***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of California Lutheran University and Affiliate as of May 31, 2016, and the change 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.

***Other Matters******Report on Summarized Comparative Information***

We have previously audited the California Lutheran University and Affiliate's May 31, 2015 consolidated financial statements, and our report dated September 14, 2015, expressed an unmodified audit opinion on those audited consolidated financial statements. 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 consolidated financial statements from which it has been derived.

***Supplementary Information***

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



Los Angeles, California  
September 12, 2016

**CALIFORNIA LUTHERAN UNIVERSITY AND AFFILIATE  
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
AS OF MAY 31, 2016 AND 2015**

ASSETS	2016	2015
Cash and cash equivalents	\$ 55,882,067	\$ 52,592,843
Receivables		
Student accounts, net	1,720,667	1,763,326
Grants	352,063	328,247
Contributions	6,966,163	7,485,342
Other, net	1,554,801	1,676,917
	<u>10,593,694</u>	<u>11,253,832</u>
Student loans receivable, net	1,596,483	1,621,171
Prepaid expenses, inventories and deposits	2,042,123	1,705,167
Investments		
Endowment	92,559,894	92,938,118
Deferred gifts held by University	2,900,757	3,057,137
California Lutheran Educational Foundation investments	5,115,036	5,772,940
Other	383,457	310,110
	<u>100,959,144</u>	<u>102,078,305</u>
Funds held in trust by others	1,257,393	1,330,393
Deposits with trustee - reserved funds	3,912,096	3,934,040
Debt acquisition costs	1,914,637	2,011,245
Construction in progress	1,775,095	2,391,100
Property, plant, and equipment, net	135,124,309	136,191,904
Other intangible assets	475,000	475,000
	<u>475,000</u>	<u>475,000</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 315,532,041</u></b>	<b><u>\$ 315,585,000</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable	\$ 1,282,532	\$ 2,914,079
Accrued liabilities	9,458,154	8,063,148
Student housing deposits	695,908	767,708
Deferred revenue	1,758,971	1,483,972
Interest rate exchange agreement liability	39,464	70,973
Annuities payable	4,157,600	4,645,571
Deposits held in trust for others	1,970,130	2,093,092
Government grants refundable	1,621,088	1,599,897
Long-term debt	65,912,008	68,603,678
	<u>65,912,008</u>	<u>68,603,678</u>
<b>TOTAL LIABILITIES</b>	<b><u>86,895,855</u></b>	<b><u>90,242,118</u></b>
<b>NET ASSETS</b>		
Unrestricted	136,817,368	136,088,586
Temporarily restricted	34,071,153	34,188,781
Permanently restricted	57,747,665	55,065,515
	<u>57,747,665</u>	<u>55,065,515</u>
<b>TOTAL NET ASSETS</b>	<b><u>228,636,186</u></b>	<b><u>225,342,882</u></b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 315,532,041</u></b>	<b><u>\$ 315,585,000</u></b>

**CALIFORNIA LUTHERAN UNIVERSITY AND AFFILIATE**  
**CONSOLIDATED STATEMENTS OF ACTIVITIES**  
**FOR THE YEARS ENDED MAY 31, 2016 WITH SUMMARIZED TOTALS FOR 2015**

	2016			2015	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
<b>OPERATING</b>					
<b>Revenues, gains and other support</b>					
Tuition and fees	\$122,042,712	\$ -	\$ -	\$ 122,042,712	\$ 118,683,225
Less: Scholarships and grants	<u>(44,618,065)</u>	-	-	<u>(44,618,065)</u>	<u>(40,942,024)</u>
Net tuition and fees	77,424,647	-	-	77,424,647	77,741,201
Government and grants	2,683,594	-	-	2,683,594	2,341,889
Contributions	3,173,541	1,515,116	-	4,688,657	4,810,617
Short-term investment gain	157,002	-	-	157,002	49,150
Long-term investment income and gains allocated for operations	1,352,378	2,244,733	-	3,597,111	3,153,190
Interest and dividends	134,132	-	-	134,132	360,003
Sales and services of educational activities	888,788	-	-	888,788	1,112,770
Other sources	3,035,124	-	-	3,035,124	2,983,345
Sales and services of auxiliary enterprises	<u>17,500,849</u>	-	-	<u>17,500,849</u>	<u>16,988,108</u>
	106,350,055	3,759,849	-	110,109,904	109,540,273
Net assets released from restrictions	2,926,951	(2,926,951)	-	-	-
Reclassifications and re-designations	<u>701,285</u>	<u>(445,914)</u>	<u>(255,371)</u>	-	-
<b>TOTAL REVENUES, GAINS AND OTHER SUPPORT</b>	<u>109,978,291</u>	<u>386,984</u>	<u>(255,371)</u>	<u>110,109,904</u>	<u>109,540,273</u>
<b>Expenses</b>					
Program expenses					
Instruction	38,452,043	-	-	38,452,043	38,235,343
Public service	4,939,304	-	-	4,939,304	4,897,790
Academic support	7,778,547	-	-	7,778,547	6,770,513
Student services	21,135,312	-	-	21,135,312	20,657,954
Auxiliary enterprises	18,350,474	-	-	18,350,474	18,971,052
Support expenses					
Institutional support	18,329,487	-	-	18,329,487	17,292,783
Allocable expenses					
Operation and maintenance of plant	8,672,400	-	-	8,672,400	9,138,097
Depreciation	7,599,161	-	-	7,599,161	7,281,597
Interest	3,134,060	-	-	3,134,060	3,769,518
Less: Allocated expenses	<u>(19,405,621)</u>	-	-	<u>(19,405,621)</u>	<u>(20,189,212)</u>
<b>TOTAL OPERATING EXPENSES</b>	<u>108,985,167</u>	<u>-</u>	<u>-</u>	<u>108,985,167</u>	<u>106,825,435</u>
Change in net assets from operating activities	993,124	386,984	(255,371)	1,124,737	2,714,838
<b>NON-OPERATING</b>					
Endowment income	(104,489)	239,966	-	135,477	3,465,471
Less: Long-term investment income and gains allocated for operations	<u>(1,352,378)</u>	<u>(2,244,733)</u>	-	<u>(3,597,111)</u>	<u>(3,153,190)</u>
Investment return distributed	(1,456,867)	(2,004,767)	-	(3,461,634)	312,281
Net (losses) gains on other investments	(491)	(4,132)	-	(4,623)	3,501
Net gain (loss) on CEFA bond reserve	151,831	-	-	151,831	248,202
Unrealized gain on interest rate exchange agreement	31,509	-	-	31,509	40,632
Deferred giving - gifts	62,493	58,571	2,915,198	3,036,262	4,009,060
Capital giving - gifts	-	2,534,319	-	2,534,319	2,782,876
(Losses) gains on funds held in trust by others	(70,832)	-	17,690	(53,142)	216,438
Adjustment to actuarial liability for annuities payable	(1,297)	(69,291)	4,633	(65,955)	(318,472)
Loss on disposal of property, plant and equipment	-	-	-	-	(2,960)
Net assets released from restrictions - nonoperating	<u>1,019,312</u>	<u>(1,019,312)</u>	-	-	-
Change in net assets from non-operating activities	<u>(264,342)</u>	<u>(504,612)</u>	<u>2,937,521</u>	<u>2,168,567</u>	<u>7,291,558</u>
<b>CHANGE IN NET ASSETS</b>	728,782	(117,628)	2,682,150	3,293,304	10,006,396
NET ASSETS, beginning of year	136,088,586	34,188,781	55,065,515	225,342,882	215,336,486
NET ASSETS, end of year	<u>\$ 136,817,368</u>	<u>\$ 34,071,153</u>	<u>\$ 57,747,665</u>	<u>\$ 228,636,186</u>	<u>\$ 225,342,882</u>

**CALIFORNIA LUTHERAN UNIVERSITY AND AFFILIATE  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED MAY 31, 2016 AND 2015**

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 3,293,304	\$ 10,006,396
Adjustments to reconcile change in net assets to net cash provided from operating activities:		
Depreciation, amortization, and accretion	7,701,138	7,755,860
Gain on investments, net	(130,854)	(3,468,972)
Unrealized gain on CEFA bond proceeds	(151,831)	(248,202)
Change in allowance for doubtful accounts	15,219	15,219
Change in interest rate exchange agreement liability	(31,509)	(40,632)
Actuarial adjustment of annuities payable	65,955	318,472
Loss on disposal of assets	-	2,960
Gain on funds held in trust by others	73,000	(203,339)
Contributions restricted for plant, loans, and long-term investment	(5,570,581)	(6,791,936)
Changes in current assets and liabilities:		
Student accounts receivable	27,440	(140,705)
Grants receivable	(23,816)	(97,859)
Contributions receivable	519,179	(304,458)
Other receivables	122,116	(120,544)
Prepaid expenses, inventories and deposits	(336,956)	91,389
Accounts payable	(1,132,467)	136,123
Accrued liabilities	1,395,006	(1,213,737)
Student housing deposits	(71,800)	47,330
Deferred revenue	274,999	(320,477)
Deposits held in trust for others	(122,962)	72,910
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>5,914,580</u>	<u>5,495,798</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(52,029,167)	(51,362,437)
Sales of investments	53,387,235	49,246,054
Deposits from trustee accounts	(265,374)	(3,453,098)
Interest earned on deposits with trustee	(92,625)	(119,078)
Purchases of property, plant, and equipment, and CIP	(6,414,642)	(5,678,885)
Disbursements of loans to students	(220,000)	(250,000)
Repayments of loans from students	226,794	262,039
NET CASH USED IN INVESTING ACTIVITIES	<u>(5,407,779)</u>	<u>(11,355,405)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term debt	531,773	36,823,363
Payments of principal on indebtedness	(2,691,671)	(32,288,836)
Increase in debt acquisition costs	(5,370)	(591,373)
Increase in refundable governmental grants, net	21,191	20,407
Loan receivable cancellations and write-offs	17,893	14,137
Payments to annuitants	(739,280)	(666,816)
Increase in annuities payable from new gifts	77,306	165,299
Contributions received restricted for plant, loans and long-term investment	5,570,581	6,791,935
NET CASH FROM FINANCING ACTIVITIES	<u>2,782,423</u>	<u>10,268,116</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,289,224	4,408,509
CASH AND CASH EQUIVALENTS, beginning of year	<u>52,592,843</u>	<u>48,184,334</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 55,882,067</u>	<u>\$ 52,592,843</u>

# **CALIFORNIA LUTHERAN UNIVERSITY AND AFFILIATE**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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### **Note 1 – Organization**

California Lutheran University (“Cal Lutheran”) is an institution of higher education affiliated with the Evangelical Lutheran Church in America. Cal Lutheran offers undergraduate and graduate degrees in the liberal arts and sciences and professional fields.

California Lutheran Educational Foundation (the “Foundation”) is a private foundation whose primary function is to provide fundraising support for California Lutheran University.

KCLU-FM California Lutheran University (the “Station”) is a noncommercial radio station owned and operated by Cal Lutheran. The accounts and reports of the Station are a part of Cal Lutheran’s general accounting system and have been identified and segregated from the books of Cal Lutheran. The accounting policies of Cal Lutheran reflect practices common to colleges and universities and conform to accounting principles generally accepted in the United States of America.

On January 1, 2014, Cal Lutheran merged with Pacific Lutheran Theological Seminary (“PLTS”) with Cal Lutheran as the surviving entity. The merger supports the Cal Lutheran vision of expanding its geographical footprint in California with an institution having a complementary mission and contributes to the growth of Cal Lutheran graduate programs.

**Principles of consolidation** – The consolidated financial statements include the accounts of California Lutheran University and California Lutheran Educational Foundation (collectively referred to as the “University”). All significant intercompany balances and transactions have been eliminated in consolidation.

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

**Basis of presentation** – These consolidated financial statements, which are presented on the accrual basis of accounting, have been prepared to focus on the University as a whole. For the purpose of financial reporting, the University classifies resources into three net asset categories pursuant to any donor-imposed restrictions and applicable law. Accordingly, the net assets of the University are classified in the accompanying consolidated financial statements in the categories that follow:

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

**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.

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

## **CALIFORNIA LUTHERAN UNIVERSITY AND AFFILIATE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

The 2016 consolidated statement of activities is presented with 2015 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 Generally Accepted Accounting Principles (“GAAP”). Accordingly, such information should be read in conjunction with the University’s consolidated financial statements for the year ended May 31, 2015, from which the summarized information was derived.

**Cash equivalents** – The University considers all highly liquid investments, except those held for long-term investment, with original maturities of three months or less when purchased to be cash equivalents.

**Student accounts receivable** – Student accounts receivable are carried at the unpaid balance of the original amount billed to students less an estimate made for doubtful accounts based on historical experience and management’s evaluation of receivables at the end of each year. Student accounts are written off when deemed uncollectible. Recoveries of student accounts previously written off are recorded when received. A student account receivable is considered to be delinquent if any portion of the balance is outstanding for more than 90 days after the billing date. Interest is charged on past due accounts receivable. Receivables are generally unsecured.

**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.

**Investments and investment income** – Investments are measured at fair value in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 820, *Fair Value Measurements and Disclosures* in the consolidated statements of financial position (see Note 3). Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in operating and non-operating unrestricted revenues, gains and other support unless the income or loss is restricted by donor, law or endowment spending.

The University adopted the May 2015 accounting standards update related to Topic 820 – Fair Value Measurement promulgated by the Financial Accounting Standards Board. This update removes the requirement to categorize investments measured using the net asset value per share/unit practical expedient within the fair value hierarchy.

**Fair value of financial instruments** – The carrying amounts of cash and cash equivalents, accounts receivable and other receivables, accounts payable and accrued liabilities, deposits and deferred revenue approximate fair value because of the short-term maturity of these financial instruments.

## **CALIFORNIA LUTHERAN UNIVERSITY AND AFFILIATE**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

A reasonable estimate of the fair value of the receivables from students under government loan programs and grants refundable to the government for student loans could not be made because the notes receivable are not saleable and can only be assigned to the U.S. government or its designee. The fair value of receivables under institutional loan programs approximates carrying value.

The carrying amounts of the actuarial liability for trusts and annuities payable are based on life expectancies, quoted market prices, and the applicable discount rates in effect at the time the agreements were received by the University. The carrying amounts of long-term debt approximates fair value because these financial instruments bear interest at rates which approximate current market rates for notes with similar maturities and credit quality.

Contributions of assets other than cash are recorded at their estimated fair value at the date of the gift. Estimates of fair value involve assumptions and estimation methods that are uncertain and, therefore, the estimates could differ from actual results.

Cash surrender value of life insurance policies is considered to approximate fair value and is included in investments.

The fair values for investments and other financial instruments recorded at fair value on a recurring basis are included in Note 6.

**Deposits with trustee** – Deposits with trustee include amounts restricted for debt service as required by the trust indenture as well as bond construction funds for property additions. In prior years, the University sold its future interest to earnings on certain trustee bond reserves. Revenue from such sale had been deferred and recognized as income as earned.

**Debt acquisition costs** – Costs of bond issuance are deferred and amortized on a straight-line basis over the term of the related indebtedness. Amortization of approximately \$102,000 was recorded for the year ended May 31, 2016 and \$95,000 for the year ended May 31, 2015.

**Property and equipment and construction in progress** – Physical property assets are stated at cost (or at fair value if donated), less accumulated depreciation, computed on a straight-line basis over the estimated useful lives of buildings and improvements (10 – 40 years), equipment (3 – 10 years) and library books and materials (20 years). Normal repair and maintenance expenses are charged to operations as incurred. The University capitalizes physical property additions in excess of \$10,000.

**Other intangible assets** – Intangible assets are non-monetary assets without physical substance. The University's intangible assets consist of a FCC broadcasting license acquired for \$475,000 during the fiscal year ended May 31, 2013. The intangible asset, determined to have an indefinite useful life, is not amortized, but instead is tested for impairment at least annually.

## **CALIFORNIA LUTHERAN UNIVERSITY AND AFFILIATE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

**Impairment of long-lived assets** – The University reviews long-lived assets, including property and equipment and intangibles, 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.

**Asset retirement obligations** – Asset retirement obligations are estimated costs and obligations associated with the retirement of long-lived assets. These liabilities were initially recorded at fair value and the related asset retirement costs were recorded as decreases in unrestricted net assets. Asset retirement costs are subsequently accreted over the useful lives of the related assets. The asset retirement obligation of approximately \$608,000 and \$650,000 at May 31, 2016 and 2015, respectively, is included in accrued liabilities on the consolidated statements of financial position. The asset retirement obligation was reduced in 2016 and 2015 due to remediation of buildings on campus. Therefore, there was no accretion expense for the years ending May 31, 2016 and 2015.

**Deferred revenue** – The University has deferred revenue/advances from prepayments on student accounts and from vendors related to its bookstore and food service operations.

**Deferred gift agreements** – The University has arrangements with donors classified as charitable remainder trusts and charitable gift annuities. In general, under these arrangements the University receives a gift from a donor and agrees to pay the donor stipulated amounts over the remaining life of the donor. The arrangement may cover one or more beneficiary and/or successor beneficiary 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 the future distributions 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 historical interest rates varying from 1.2% to 10% in making the calculations.

The University received approximately \$77,000 and \$165,000 of gift value relating to deferred gift agreements for the years ended May 31, 2016 and 2015, respectively. The gift value relating to deferred gift agreements are recorded in deferred gifts held by the University and the related liability is recorded to annuities payable on the consolidated statements of financial position.

## **CALIFORNIA LUTHERAN UNIVERSITY AND AFFILIATE**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

**Government grants refundable** – Funds provided by the United States Government under the Federal Perkins Loan Program are loaned to qualified students and may be re-loaned after collections. These funds are ultimately refundable to the government and are included as liabilities in the consolidated statements of financial position. 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.

**Net assets** – Reclassifications and re-designations of net assets are for the purpose of restoring the corpus amount for underwater activity.

**Revenue recognition** – 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 permanently restricted donor 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, 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 (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restriction between the applicable classes of net assets. Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues of the temporarily restricted net asset class, and a release to unrestricted net assets is made to reflect the expiration of such restrictions. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. The contribution received is discounted for an allowance for bad debt using the percentage of pledges written off to total pledges recorded for an average of twelve years of 2.77%. In addition, the present value of cash flows is discounted by 1.25% per annum to account for the time value of receipts.

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.

In the absence of donor stipulations or law to the contrary, losses on the investments of a donor-restricted endowment fund reduce temporarily restricted net assets to the extent that donor-imposed temporary restrictions on net appreciation of the fund have not been met before the loss occurs. Any remaining loss reduces unrestricted net assets. If losses reduce the assets of a donor-restricted endowment fund below the level required by the donor stipulations or law, gains that restore the fair value of the assets of the endowment fund to the required level are classified as increases in unrestricted net assets. Losses on investments of endowment funds created by a board designation of unrestricted funds are classified as reductions in unrestricted net assets.

## **CALIFORNIA LUTHERAN UNIVERSITY AND AFFILIATE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

**Tuition and fees and auxiliary revenues** – Tuition revenue is recognized in the period the classes are provided. Revenue from auxiliary enterprises is recognized when goods or services are provided. Financial assistance in the form of scholarships and grants that cover a portion of tuition, living and other costs is reflected as a reduction of tuition and fees revenues.

Certain revenue related to summer courses and programs is deferred and recognized as revenue in the same period expenses are recognized. Students are generally billed for courses and programs prior to the start of the course or program.

**Unemployment compensation** – The University has elected to pay unemployment compensation claims as they arise.

**Retirement plans** – The University has certain contributory retirement plans for academic and nonacademic personnel. Contributions for employees are determined on a percentage of annual compensation. The cost of the retirement plans is paid currently and approximated \$3,948,000 and \$3,712,000 for the years ended May 31, 2016 and 2015, respectively.

**Fundraising and advertising expenses** – Fundraising expenses approximated \$2,980,000 and \$2,893,000 for the years ended May 31, 2016 and 2015, respectively. Advertising costs approximated \$1,061,000 and \$942,000 for the years ended May 31, 2016 and 2015, respectively, and are expensed as incurred.

**Functional allocation of expenses** – The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statements of activities. Accordingly, certain expenses have been allocated among the programs and supporting services benefited.

**Use of estimates** – The preparation of the consolidated 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 amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

**Income tax status** – The Internal Revenue Service has determined that the University and Foundation are exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code as non-profit organizations. It is also exempt from state income taxes. 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 consolidated financial statements 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.

## CALIFORNIA LUTHERAN UNIVERSITY AND AFFILIATE

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

**Reclassifications** – Certain amounts appearing in the 2015 consolidated financial statements have been reclassified to conform to the 2016 presentation. The reclassifications have no effect on reported amounts of total net assets or change in total net assets. Reclassifications of net assets from unrestricted to temporarily and permanently restricted net assets occurred to show donor re-designations.

#### Note 3 – Other Concentrations of Credit Risk

Financial instruments that potentially subject the University to concentrations of credit risk consist principally of cash, investments, and accounts receivable. Cash, cash equivalents and investments are concentrated in a limited number of financial institutions and amounts in excess of FDIC and similar coverages are subject to the usual risks of balances in excess of those limits.

Student loans and receivables and other receivables are due from a variety of sources concentrated primarily in the western 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. Contributions receivable as of May 31, 2016 are principally due from two major contributors (Note 4).

#### Note 4 – Contributions Receivable

Contributions receivable include the following unconditional promises to give at May 31:

	<u>2016</u>	<u>2015</u>
Temporarily restricted - plant projects	\$ 7,371,146	\$ 9,311,182
Less: Present value discount	<u>(404,983)</u>	<u>(1,825,840)</u>
Contributions receivable, net	<u>\$ 6,966,163</u>	<u>\$ 7,485,342</u>
Amounts due in:		
Less than one year	\$ 784,406	
One to five years	3,573,481	
More than five years	<u>2,608,276</u>	
	<u>\$ 6,966,163</u>	

**CALIFORNIA LUTHERAN UNIVERSITY AND AFFILIATE  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

Gross unconditional promises to give have been reduced by an allowance for unfulfilled pledges of approximately \$210,000 and \$286,000 at May 31, 2016 and 2015, respectively. An interest rate of 1.25% and 5% was used at May 31, 2016 and 2015, respectively, to discount net unconditional promises to give. The rate change is due to a change in estimate for determining discount to the federal funds rate.

Approximately \$4,600,000 and \$4,700,000 of the contributions receivable at May 31, 2016 and 2015, respectively, are due from members of the governing board of the University.

**Note 5 – Credit Quality of Student Loans Receivable**

At May 31, 2016 and 2015, student loans represented 0.51% of total assets.

Student loans consist of the following at May 31:

	2016	2015
Federal government programs	\$ 1,676,369	\$ 1,701,057
Institutional programs	5,114	5,114
	<u>1,681,483</u>	<u>1,706,171</u>
Less: Allowance for doubtful accounts	<u>(85,000)</u>	<u>(85,000)</u>
Student loans receivable, net	<u>\$ 1,596,483</u>	<u>\$ 1,621,171</u>

Funds advanced by the Federal government of approximately \$1,621,000 and \$1,600,000 at May 31, 2016 and 2015, respectively, are ultimately refundable to the government and are classified as liabilities in the consolidated statements 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 Loan Program receivables may be assigned to the U.S. Department of Education. Students may be granted a deferment, forbearance, or cancellation of their student loan receivable based on eligibility requirements defined by the U.S. Department of Education.

At May 31, the following amounts were past due under student loan programs:

May 31,	1-30 days	31-60 days	61-90 days	91+ days	Total
2016	\$ 35,481	\$ 41,478	\$ 17,589	\$ 87,781	\$ 182,329
2015	\$ 45,568	\$ 63,687	\$ 20,911	\$ 86,444	\$ 216,610

## **CALIFORNIA LUTHERAN UNIVERSITY AND AFFILIATE**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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#### **Note 6 – Fair Value Measurements**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels are defined as follows:

**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.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

**CALIFORNIA LUTHERAN UNIVERSITY AND AFFILIATE**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 6 – Fair Value Measurements (continued)**

The following table summarizes financial instruments measured at fair value on a recurring basis by classification within the fair value hierarchy as of May 31, 2016:

	Level 1	Level 2	Level 3	Assets Valued Using NAV Practical Expedient	Total
<b>ASSETS</b>					
Deposits with trustee/Funds held in trust					
Cash and short term investments	\$ 242,171	\$ -	\$ -	\$ -	\$ 242,171
Government bonds	-	3,669,925	-	-	3,669,925
Funds held in trust by others - beneficial interest	-	-	1,257,393	-	1,257,393
Total funds held by others	242,171	3,669,925	1,257,393	-	5,169,489
Investments					
Cash equivalents and short term investments	12,960,381	-	-	-	12,960,381
Equity securities funds - U.S.	3,569,360	-	-	7,187,986	10,757,346
Equity securities funds - Non-U.S.	9,034,532	-	-	20,965,993	30,000,525
Total equity securities	12,603,892	-	-	28,153,979	40,757,871
Comingled funds - U.S.	2,133,137	-	-	24,633,944	26,767,081
Comingled funds - Non-U.S.	1,784,118	-	-	-	1,784,118
Corporate bonds	-	7,607,918	-	-	7,607,918
Government bonds	-	1,298,461	-	-	1,298,461
Total fixed income	3,917,255	8,906,379	-	24,633,944	37,457,578
Commodities and other investments	250,843	-	-	5,388,876	5,639,719
Hedge funds	-	-	-	9,680	9,680
Partnerships					
Private equity	-	-	-	3,057,890	3,057,890
Venture capital	-	-	-	1,011,631	1,011,631
Real estate	-	-	-	64,394	64,394
Total partnerships	-	-	-	4,133,915	4,133,915
Total investments	29,732,371	8,906,379	-	62,320,394	100,959,144
<b>TOTAL ASSETS</b>	<b>\$ 29,974,542</b>	<b>\$ 12,576,304</b>	<b>\$ 1,257,393</b>	<b>\$ 62,320,394</b>	<b>\$ 106,128,633</b>
<b>LIABILITIES</b>					
Interest rate exchange agreement	\$ -	\$ 39,464	\$ -	\$ -	\$ 39,464
Deposits held in trust for others	476,149	-	-	-	476,149
<b>TOTAL LIABILITIES</b>	<b>\$ 476,149</b>	<b>\$ 39,464</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 515,613</b>

# CALIFORNIA LUTHERAN UNIVERSITY AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 6 – Fair Value Measurements (continued)

The following table summarizes financial instruments measured at fair value on a recurring basis by classification within the fair value hierarchy as of May 31, 2015:

	Level 1	Level 2	Level 3	Assets Valued Using NAV Practical Expedient	Total
<b>ASSETS</b>					
Deposits with trustee/Funds held in trust					
Cash and short term investments	\$ 416,952	\$ -	\$ -	\$ -	\$ 416,952
Government bonds	-	3,517,088	-	-	3,517,088
Funds held in trust by others - beneficial interest	-	-	1,330,393	-	1,330,393
Total funds held by others	416,952	3,517,088	1,330,393	-	5,264,433
Investments					
Cash equivalents and short term investments	9,365,505	-	-	-	9,365,505
Equity securities funds - U.S.	5,286,365	-	-	8,934,073	14,220,438
Equity securities funds - Non-U.S.	10,561,352	-	-	16,802,112	27,363,464
Total equity securities	15,847,717	-	-	25,736,185	41,583,902
Comingled funds - U.S.	2,313,202	-	-	30,576,757	32,889,959
Comingled funds - Non-U.S.	2,685,758	-	-	-	2,685,758
Corporate bonds	-	5,143,938	-	-	5,143,938
Government bonds	-	1,643,764	-	-	1,643,764
Total fixed income	4,998,960	6,787,702	-	30,576,757	42,363,419
Commodities and other investments	192,551	-	-	4,270,702	4,463,253
Hedge funds	-	-	-	8,972	8,972
Partnerships					
Private equity	-	-	-	3,085,101	3,085,101
Venture capital	-	-	-	1,118,385	1,118,385
Real estate	-	-	-	89,768	89,768
Total partnerships	-	-	-	4,293,254	4,293,254
Total investments	30,404,733	6,787,702	-	64,885,870	102,078,305
<b>TOTAL ASSETS</b>	<b>\$ 30,821,685</b>	<b>\$ 10,304,790</b>	<b>\$ 1,330,393</b>	<b>\$ 64,885,870</b>	<b>\$ 107,342,738</b>
<b>LIABILITIES</b>					
Interest rate exchange agreement	\$ -	\$ 70,973	\$ -	\$ -	\$ 70,973
Deposits held in trust for others	458,621	-	-	-	458,621
<b>TOTAL LIABILITIES</b>	<b>\$ 458,621</b>	<b>\$ 70,973</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 529,594</b>

The following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying consolidated statements of financial position, as well as general classification of such instruments pursuant to the valuation hierarchy.

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include highly liquid corporate bonds funds, government bonds fund, and U.S. equity securities funds, non-U.S. equity securities funds, U.S. comingled funds, non-U.S. comingled funds, and commodities and other investments, other than those measured at net asset value not at published prices.

## **CALIFORNIA LUTHERAN UNIVERSITY AND AFFILIATE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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### **Note 6 – Fair Value Measurements (continued)**

The fair value of securities is based on valuations provided by the external investment managers. The Investment Committee and management, in conjunction with the external investment advisors, monitor and analyze the valuation of the investments on a quarterly basis. The Investment Committee reports to the Board of Regents. The valuations consider variables such as financial performance of investments, recent sales prices of investments, and other pertinent information. All investment objectives and strategies used by the fund managers comply with the University's Investment Policy.

The University's beneficial interest in irrevocable split interest agreements held or controlled by a third party is classified as Level 3 as the fair values are based on significant unobservable inputs. Since the University has an irrevocable right to receive the income earned from the trust's assets, the fair value of the University's beneficial interest is estimated to approximate the fair value of the trust's assets. The fair values are based on the market values of the trust assets. Funds held in trust by others consists of two trusts. One individual donor managed by Wells Fargo with a net present value ("NPV") of \$300,000 discounted at 5% paying \$20,000 per quarter. Payments are expected through 2020. The other trust is with the Evangelical Lutheran Church of America (ELCA) representing 16 individual donors with a NPV of \$1,200,000 with payout rates ranging from 5-9% per year discounted at 5%.

The interest rate exchange agreement is classified as Level 2 as the fair value is based on observable inputs to a valuation model (interest rates, credit spreads, etc.) which takes into account the present value of the estimated future cash flows and credit valuation adjustments.

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.

This paragraph presents information about the level in the fair value hierarchy for the University's assets and liabilities that are not reported at fair value as of May 31, 2016 and 2015. The University issued CEFA bonds that are reported at an amortized cost of \$35,680,000 and \$36,120,000 as of May 31, 2016 and 2015, respectively, in the consolidated statement of financial position. These CEFA bonds have an approximate fair value of \$39,142,000 and \$40,006,000 as of May 31, 2016 and 2015, respectively. The University determined these CEFA bonds to be Level 2 measurements in the fair value hierarchy.

## CALIFORNIA LUTHERAN UNIVERSITY AND AFFILIATE

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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#### Note 6 – Fair Value Measurements (continued)

The following table presents a reconciliation of the consolidated statements of financial position amounts for financial instruments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended May 31, 2016 and 2015:

	Balance May 31, 2015	Net realized and unrealized gains included in change in net assets	Purchases, issuances and settlement, net	Net transfers in (out) of Level 3	Balance May 31, 2016
Assets					
Funds held in trust by others - beneficial interest	\$ 1,330,393	\$ (53,001)	\$ (19,999)	\$ -	\$ 1,257,393

The amount of total gains for the period included in change in net assets attributable to the change in unrealized gains relating to Level 3 financial instruments still held at May 31, 2016

\$ -

	Balance May 31, 2014	Net realized and unrealized gains included in change in net assets	Purchases, issuances and settlement, net	Net transfers in (out) of Level 3	Balance May 31, 2015
Assets					
Funds held in trust by others - beneficial interest	\$ 1,127,054	\$ 223,338	\$ (19,999)	\$ -	\$ 1,330,393

The amount of total losses for the period included in change in net assets attributable to the change in unrealized losses relating to Level 3 financial instruments still held at May 31, 2015

\$ -

The University's policy is to recognize transfers in and transfers out as of the last day of the reporting period.

**CALIFORNIA LUTHERAN UNIVERSITY AND AFFILIATE  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 6 – Fair Value Measurements (continued)**

The following table provides additional information for investments in certain entities that measure fair value using the net asset value practical expedient:

	Fair Value at May 31, 2016	Unfunded Commitments	Redemption Frequency	Redemption Notice Period	Investee Strategies and Other Restrictions
Equity securities funds - U.S.	\$ 7,187,986	\$ -	Daily	2 days	[1]
Equity securities funds - Non U.S.	20,965,993	-	Daily/Monthly	2-10 days	[1]
Comingled funds - U.S.	24,633,944	-	Daily	2-15 days	[1]
Commodities and Other	5,388,876	-	Daily	2 days	[1]
Hedge funds	9,680	-	Not permitted	n/a	[1]
Partnerships					
Private equity	3,057,890	1,323,000	Not permitted	n/a	[2]
Venture capital	1,011,631	76,000	Not permitted	n/a	[2]
Real estate	64,394	169,000	Not permitted	n/a	[2]
	<u>\$ 62,320,394</u>	<u>\$ 1,568,000</u>			
Balance at May 31, 2016					

[1] Absolute total return in long/short equity and multi-strategy hedge funds.

[2] Venture and buyout, in the U.S. and international.

The University's investment strategy incorporates a diversified asset allocation approach and maintains, within defined limits, exposure to the world equity, fixed-income, commodities, real estate and private equity markets. This strategy provides the University with a long-term asset mix that is most likely to meet the University's long-term return goals with the appropriate level of risk.

The University's hedge funds and partnership investments were entered into to diversify the University's portfolio, to provide predictability in overall earnings and to provide market-neutral holdings. The University's management, the finance and investment committee of the Board of Regents and the University's external investment consultants regularly review performance reports provided by the general partners of these investments. The University's external investment consultants attend meetings of the various general partners in order to evaluate the risk associated with these investments. In addition, the University monitors its portfolio mix to ensure that it is in accordance with Board policy.

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 consolidated financial statements.

**CALIFORNIA LUTHERAN UNIVERSITY AND AFFILIATE**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 7 – Construction in Progress**

At May 31, 2016, the following projects were in progress:

	Estimated Total Cost (Unaudited)	Cost to Date	Funding Plan
New Art Building	\$ 8,000,000	\$ 504,400	Donations/operations
New Science Building Design	2,500,000	699,774	Donations/operations
Rolland Stadium LED Video Scoreboard	500,000	179,481	Donations/operations
Other projects		391,440	Donations/operations
		<u>\$ 1,775,095</u>	

At May 31, 2015, the following major projects were in progress:

	Estimated Total Cost (Unaudited)	Cost to Date	Funding Plan
New Student Union Building	\$ 2,550,000	\$ 718,121	Operations
Other projects		1,672,979	Donations/operations
		<u>\$ 2,391,100</u>	

**Note 8 – Property and Equipment**

Property and equipment consist of the following at May 31:

	2016	2015
Land	\$ 7,584,992	\$ 7,584,992
Improvements other than buildings	32,666,839	32,176,853
Buildings	154,065,691	148,908,485
Equipment	13,091,454	12,573,186
Library books or materials	4,336,552	4,276,826
	<u>211,745,528</u>	<u>205,520,342</u>
Less: Accumulated depreciation	<u>(76,621,219)</u>	<u>(69,328,438)</u>
Property and equipment, net	<u>\$ 135,124,309</u>	<u>\$ 136,191,904</u>

Depreciation expense totaled approximately \$7,599,000 and \$7,282,000 for the years ended May 31, 2016 and 2015, respectively.

**CALIFORNIA LUTHERAN UNIVERSITY AND AFFILIATE  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 9 – Derivative Instruments**

The University uses an interest rate exchange agreement as part of its risk management strategy to manage exposure to fluctuations in interest rates and to manage the overall cost of its debt. Interest rate exchange agreements are used to manage identified and approved exposures and are not used for speculative purposes. The interest rate exchange agreement is recognized as either an asset or liability on the consolidated statements of financial position and is measured at fair value. Interest rate exchange agreements are often held for the life of the strategy, but may reflect significant interim unrealized gains or losses depending on the change in value since the inception of the contract. All unrealized and realized gain or loss from the interest rate exchange agreement is reflected in the consolidated statements of activities.

The University entered into an interest rate exchange agreement during 2011. The interest rate exchange agreement has an original notional amount of \$4,200,000. The agreement fixes the University's one month LIBOR interest rate at 4.18% through the February 1, 2019 expiration date.

The interest rate exchange agreement between the University and a third party ("counterparty") provides for periodic exchange of payments between the parties based on changes in a defined index and a fixed rate and includes counterparty credit risk. Counterparty credit risk is the risk that contractual obligations of the counterparties will not be fulfilled. Concentrations of credit risk relate to groups of counterparties that have similar economic or industry characteristics that could cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. Counterparty credit risk is managed by requiring high credit standards for the University's counterparties. The counterparties to these contracts are financial institutions that carry investment-grade credit ratings. The interest rate exchange agreement contains collateral provisions applicable to both parties to mitigate credit risk. The University does not anticipate non-performance by its counterparty.

Derivative instruments are reported in the consolidated statements of financial position at fair value as of May 31, 2016 and 2015 as follows:

Derivatives Not Designated as Hedging Instruments	Liabilities Derivative			
	Statement of Financial Position Location	Fair Value		
		<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; border-bottom: 1px solid black; text-align: center;">2016</td> <td style="width: 50%; border-bottom: 1px solid black; text-align: center;">2015</td> </tr> </table>	2016	2015
2016	2015			
Interest exchange agreement	Interest rate exchange agreement liability	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; text-align: right;">\$ 39,464</td> <td style="width: 50%; text-align: right;">\$ 70,973</td> </tr> </table>	\$ 39,464	\$ 70,973
\$ 39,464	\$ 70,973			
Derivatives Not Designated as Hedging Instruments	Location of Gain on Derivatives Recognized in the Statement of Changes in Net Assets	Amount of Gain on Derivatives Recognized in the Statement of Changes in Net Assets		
		<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; border-bottom: 1px solid black; text-align: center;">2016</td> <td style="width: 50%; border-bottom: 1px solid black; text-align: center;">2015</td> </tr> </table>	2016	2015
2016	2015			
Interest exchange agreement	Unrealized gain on interest rate exchange agreement	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; text-align: right;">\$ 31,509</td> <td style="width: 50%; text-align: right;">\$ 40,632</td> </tr> </table>	\$ 31,509	\$ 40,632
\$ 31,509	\$ 40,632			

## **CALIFORNIA LUTHERAN UNIVERSITY AND AFFILIATE**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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#### **Note 10 – Long-Term Debt**

The University had the following long-term debt outstanding at May 31:

	2016	2015
Note payable	\$ 1,443,750	\$ 1,968,750
Mission Investment Fund note	1,062,317	1,169,961
California Municipal Financing Authority (CMFA)		
Union Bank Direct Placement 2014A	27,720,941	29,339,967
Union Bank Direct Placement 2014B	5,000	5,000
California Educational Facilities Authority (CEFA)		
Revenue Bonds 2008 Series	35,680,000	36,120,000
	\$ 65,912,008	\$ 68,603,678

The University has a bank note outstanding, secured by 14 individual homes, and totaling \$1,443,750 and \$1,968,750 at May 31, 2016 and 2015, respectively, which matures through February 1, 2019. The required monthly payment ranges between \$48,000 and \$50,000. The University entered into an interest rate exchange agreement related to this note to fix the interest rate at 4.18% (see Note 9).

The University inherited a fixed rate loan from the Mission Investment Fund as a part of the merger with PLTS. The balance as of May 31, 2016 and 2015 was \$1,062,317 and \$1,169,961, respectively, at an interest rate of 3.75%. The Mission Investment Fund is secured by real property.

The University refinanced the 1999 Series bonds (“CEFA 99”), 2004 Series A and 2004 Series C bonds with a loan of approximately \$30,000,000 (2014A) on December 2, 2014 with Union Bank. The 2014A is a fixed rate loan at 3.08% maturing on December 2, 2029. In addition, the University set up a loan (2014B) with Union Bank for \$15,000,000 at a fixed rate of 3.07% with the option to draw the proceeds over a three year period. The 2014B loan is intended to finance future construction activities of the University. The 2014B maturity date is December 2, 2029. The 2014A and 2014B debt is secured by real property and a pledge on future revenue.

The 2008 Series bonds were issued to finance construction activities and the refunding of the University’s outstanding Revenue Bonds 2004 Series B. The 2008 Series bonds include one serial series bond and three term bonds. The 2008 serial series bonds have interest rates varying from 3.50% to 4.50% and mature annually on October 1, 2013 to October 1, 2016 in amounts from \$400,000 to \$460,000. The term bonds have interest rates varying from 5.25% to 5.75% and mature from October 1, 2017 to October 1, 2038 in amounts from \$480,000 to \$3,650,000. The bonds are secured by certain real property and a pledge on future revenue.

The University is required to maintain debt service reserve funds of approximately \$3,910,000 at May 31, 2016 and 2015 which were partially funded from bond proceeds. The bond agreements require that certain financial and other covenants be maintained. As of May 31, 2016, management has stated that the University is in compliance with these covenants.

**CALIFORNIA LUTHERAN UNIVERSITY AND AFFILIATE  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 10 – Long-Term Debt (continued)**

Annual maturities of long-term debt for each of the five years subsequent to May 31, 2016 are as follows:

Years Ended May 31,	Principal Maturities	Future Expected Commitments	Total
2017	\$ 2,766,481	\$ -	\$ 2,766,481
2018	2,842,905	521,040	3,363,945
2019	2,799,872	1,066,353	3,866,225
2020	2,496,187	1,099,555	3,595,742
2021	2,583,161	1,133,790	3,716,951
Thereafter	52,423,402	11,179,262	63,602,664
	<u>\$ 65,912,008</u>	<u>\$ 15,000,000</u>	<u>\$ 80,912,008</u>

**Note 11 – Short-Term Credit Arrangements**

The University has a secured revolving line of credit in the amount of \$4,000,000, with interest at either the LIBOR interest rate plus 1.50% per year or the prime rate minus 0.375% determined by the University at the time of borrowing. There was no balance outstanding as of May 31, 2016 and 2015. The revolving credit line is secured by residential real estate.

**Note 12 – Restrictions and Limitations on Net Asset Balances**

Permanently restricted net assets consist of the following at May 31:

	2016	2015
Endowment funds	\$ 55,307,469	\$ 52,529,037
Funds held in trust by others	884,150	866,461
Student loan funds	304,278	322,326
Annuity, life income and similar funds	1,251,768	1,347,691
	<u>\$ 57,747,665</u>	<u>\$ 55,065,515</u>

**CALIFORNIA LUTHERAN UNIVERSITY AND AFFILIATE**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 12 – Restrictions and Limitations on Net Asset Balances (continued)**

Temporarily restricted net assets consist of the following at May 31:

	<u>2016</u>	<u>2015</u>
Gifts and other unexpended revenues and gains available for:		
Scholarships, instruction and other departmental support	\$ 5,867,669	\$ 5,169,147
Acquisition of buildings and equipment	12,692,072	10,970,226
Endowment funds	14,309,383	16,753,801
Funds held in trust by others	67,322	87,179
	<u>32,936,446</u>	<u>32,980,353</u>
Annuity, life income and similar funds	<u>1,134,707</u>	<u>1,208,428</u>
	<u>\$ 34,071,153</u>	<u>\$ 34,188,781</u>

Unrestricted net assets consist of the following at May 31:

	<u>2016</u>	<u>2015</u>
Operations	\$ 53,014,846	\$ 50,685,120
Endowment funds - board-designated	22,466,892	23,196,658
Funds held in trust by others	305,921	376,753
Property	<u>61,029,709</u>	<u>61,830,055</u>
	<u>\$ 136,817,368</u>	<u>\$ 136,088,586</u>

**Note 13 – Net Assets Released from Restrictions**

Net assets were released from temporary donor restrictions during the years ended May 31, 2016 and 2015 by incurring expenses satisfying the restricted purposes or by occurrence of events specified by the donors as follows:

	<u>2016</u>	<u>2015</u>
Scholarships, instruction and other departmental support	\$ 2,926,951	\$ 3,469,957
Acquisition of buildings and equipment	<u>1,019,312</u>	<u>315,527</u>
	<u>\$ 3,946,263</u>	<u>\$ 3,785,484</u>

## **CALIFORNIA LUTHERAN UNIVERSITY AND AFFILIATE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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### **Note 14 – Endowment**

The University's endowment consists of approximately 300 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's governing board has interpreted the California enacted version of Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as allowing the University to appropriate for expenditure or accumulate so much of an endowment fund as the University determines is prudent for the uses, benefits, purposes and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument. Unless stated otherwise in the gift instrument, the assets in an endowment fund shall be donor-restricted assets until appropriated for expenditure by the Board of Regents. See Note 2 for further information on net asset classifications.

The remaining portion of the donor-restricted endowment fund that is not classified as 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 UPMIFA. In accordance with UPMIFA, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the 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
7. The investment policies of the University

**CALIFORNIA LUTHERAN UNIVERSITY AND AFFILIATE**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 14 – Endowment (continued)**

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	\$ (18,369)	\$ 12,945,341	\$ 55,307,469	\$ 68,234,441
Board-designated endowment funds*	<u>22,485,261</u>	<u>1,364,042</u>	<u>-</u>	<u>23,849,303</u>
Total endowment net assets	<u>\$ 22,466,892</u>	<u>\$ 14,309,383</u>	<u>\$ 55,307,469</u>	<u>\$ 92,083,744</u>

\*Amounts shown as temporarily restricted Board-designated have a donor-restriction as to purpose but are not donor-endowed.

Changes in endowment net assets for the year ended May 31, 2016 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, May 31, 2015	\$ 23,196,658	\$ 16,753,801	\$ 52,529,037	\$ 92,479,496
Investment return				
Investment income, net of fees of \$323,805	131,500	194,860	-	326,360
Net (depreciation) appreciation - realized and unrealized	<u>(203,658)</u>	<u>45,105</u>	<u>-</u>	<u>(158,553)</u>
Total investment return	<u>(72,158)</u>	<u>239,965</u>	<u>-</u>	<u>167,807</u>
Contributions	49,474	58,571	2,879,915	2,987,960
Changes in cash surrender values	27,631	(27,955)	72,368	72,044
Appropriation of endowment assets for expenditure	(1,352,378)	(2,244,733)	-	(3,597,111)
Other changes:				
Transfers	<u>617,665</u>	<u>(470,266)</u>	<u>(173,851)</u>	<u>(26,452)</u>
Endowment net assets, May 31, 2016	<u>\$ 22,466,892</u>	<u>\$ 14,309,383</u>	<u>\$ 55,307,469</u>	<u>\$ 92,083,744</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	\$ (19,281)	\$ 15,440,392	\$ 52,529,037	\$ 67,950,148
Board-designated endowment funds*	<u>23,215,939</u>	<u>1,313,409</u>	<u>-</u>	<u>24,529,348</u>
Total endowment net assets	<u>\$ 23,196,658</u>	<u>\$ 16,753,801</u>	<u>\$ 52,529,037</u>	<u>\$ 92,479,496</u>

\*Amounts shown as temporarily restricted Board-designated have a donor-restriction as to purpose but are not donor-endowed.

**CALIFORNIA LUTHERAN UNIVERSITY AND AFFILIATE  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 14 – Endowment (continued)**

Changes in endowment net assets for the year ended May 31, 2015 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, May 31, 2014	\$ 21,529,414	\$ 15,698,207	\$ 48,610,873	\$ 85,838,494
Investment return				
Investment income, net of fees of \$334,685	102,680	429,926	-	532,606
Net appreciation - realized and unrealized	<u>784,704</u>	<u>2,148,161</u>	-	<u>2,932,865</u>
Total investment return	887,384	2,578,087	-	3,465,471
Contributions	975	114,400	3,668,900	3,784,275
Changes in cash surrender values	31,557	7,724	334,698	373,979
Appropriation of endowment assets for expenditure	(801,620)	(2,351,570)	-	(3,153,190)
Other changes:				
Transfers	<u>1,548,948</u>	<u>706,953</u>	<u>(85,434)</u>	<u>2,170,467</u>
Endowment net assets, May 31, 2015	<u>\$ 23,196,658</u>	<u>\$ 16,753,801</u>	<u>\$ 52,529,037</u>	<u>\$ 92,479,496</u>

**Funds with deficiencies** – From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the University to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were approximately \$18,000 and \$19,000 as of May 31, 2016 and 2015, 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 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 that attempt to be prudent and 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(s) as well as board-designated funds. Under this policy, the long-term minimum need of the endowment is to exceed a total return averaging at least the annual spending rate plus inflation, fees and costs. Actual returns in any year may vary from this amount. The long-term objective is to build endowment value over time by achieving incremental returns in excess of need while appropriately managing portfolio risk.

## CALIFORNIA LUTHERAN UNIVERSITY AND AFFILIATE

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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#### Note 14 – Endowment (continued)

**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 spending policy** – The University has a policy of appropriating for distribution each year 5.00% of its endowment fund's average fair value for the twelve quarters prior to and including December 31 preceding the fiscal year-end. 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 4.00% 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 15 – Operating Leases

The University has operating leases for offsite student facilities and one vehicle. Rental expense associated with these leases totaled approximately \$1,237,000 and \$1,055,000 for the years ended May 31, 2016 and 2015, respectively.

Future minimum lease payments on leases in effect on May 31, 2016, are as follows:

Years Ended May 31,	Operating Leases
2017	\$ 1,085,816
2018	1,009,395
2019	715,580
2020	517,969
2021	530,758
Thereafter	1,677,538
	<u>\$ 5,537,056</u>

**CALIFORNIA LUTHERAN UNIVERSITY AND AFFILIATE**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**Note 16 – Supplemental Disclosure of Cash Flow Information**

Supplemental disclosure of cash flow information is as follows for the years ended May 31:

	<u>2016</u>	<u>2015</u>
Interest paid, net of interest capitalized of \$0 and \$11,064 for 2016 and 2015, respectively	\$ 3,134,060	\$ 3,769,518
Noncash investing and financing activities		
Retirement of fully depreciated assets	276,685	167,262
Construction in progress included in accounts payable	69,735	568,816

**Note 17 – Subsequent Events**

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

The University has evaluated subsequent events through September 12, 2016, which is the date the consolidated financial statements were available to be issued.

On August 31, 2016, the University began a License Agreement with the Los Angeles Rams National Football League team for use of its vacant property for the team’s in-season practice facilities. The Agreement with the L.A. Rams includes two football fields, installation of 50,000 square feet of temporary office and athletic facilities and up to 200 parking spaces. The term of the Agreement is for two (2) years. The Agreement may be extended for up to three (3) successive one (1) year periods. The temporary buildings will be removed upon the termination of the Agreement and the two athletic fields and the parking lot will be turned over to the University for its use.

**SUPPLEMENTARY INFORMATION**

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**CALIFORNIA LUTHERAN UNIVERSITY AND AFFILIATE  
CONSOLIDATING STATEMENT OF FINANCIAL POSITION  
AS OF MAY 31, 2016**

ASSETS	California Lutheran University	California Lutheran Education Foundation	Total
Cash and cash equivalents	\$ 55,882,067	\$ -	\$ 55,882,067
Receivables			
Student accounts, net	1,720,667	-	1,720,667
Grants	352,063	-	352,063
Contributions	6,966,163	-	6,966,163
Other	1,554,801	-	1,554,801
	<u>10,593,694</u>	<u>-</u>	<u>10,593,694</u>
Student loans receivable, net	1,596,483	-	1,596,483
Prepaid expenses, inventories and deposits	2,042,123	-	2,042,123
Investments			
Endowment	92,018,868	541,026	92,559,894
Deferred gifts held by University	2,900,757	-	2,900,757
California Lutheran Educational Foundation investments	-	5,115,036	5,115,036
Other	383,457	-	383,457
	<u>95,303,082</u>	<u>5,656,062</u>	<u>100,959,144</u>
Funds held in trust by others	1,257,393	-	1,257,393
Deposits with trustee - reserved funds	3,912,096	-	3,912,096
Debt acquisition costs	1,914,637	-	1,914,637
Construction in progress	1,775,095	-	1,775,095
Property, plant, and equipment, net	135,124,309	-	135,124,309
Other intangible assets	475,000	-	475,000
	<u>475,000</u>	<u>-</u>	<u>475,000</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 309,875,979</u></b>	<b><u>\$ 5,656,062</u></b>	<b><u>\$ 315,532,041</u></b>
<b>LIABILITIES AND NET ASSETS</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ 1,282,532	\$ -	\$ 1,282,532
Accrued liabilities	9,458,154	-	9,458,154
Student housing deposits	695,908	-	695,908
Deferred revenue	1,758,971	-	1,758,971
Interest rate exchange agreement liability	39,464	-	39,464
Annuities payable	2,264,145	1,893,455	4,157,600
Deposits held in trust for others	468,298	1,501,832	1,970,130
Government grants refundable	1,621,088	-	1,621,088
Long-term debt	65,912,008	-	65,912,008
	<u>83,500,568</u>	<u>3,395,287</u>	<u>86,895,855</u>
<b>TOTAL LIABILITIES</b>	<b><u>83,500,568</u></b>	<b><u>3,395,287</u></b>	<b><u>86,895,855</u></b>
<b>NET ASSETS</b>			
Unrestricted	136,797,204	20,164	136,817,368
Temporarily restricted	33,131,865	939,288	34,071,153
Permanently restricted	56,446,342	1,301,323	57,747,665
	<u>226,375,411</u>	<u>2,260,775</u>	<u>228,636,186</u>
<b>TOTAL NET ASSETS</b>	<b><u>226,375,411</u></b>	<b><u>2,260,775</u></b>	<b><u>228,636,186</u></b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 309,875,979</u></b>	<b><u>\$ 5,656,062</u></b>	<b><u>\$ 315,532,041</u></b>

**CALIFORNIA LUTHERAN UNIVERSITY AND AFFILIATE  
CONSOLIDATING STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED MAY 31, 2016**

	California Lutheran University	California Lutheran Education Foundation	Total
<b>OPERATING</b>			
<b>Revenues, gains and other support</b>			
Tuition and fees	\$ 122,042,712	\$ -	\$ 122,042,712
Less: Scholarships and grants	<u>(44,618,065)</u>	<u>-</u>	<u>(44,618,065)</u>
Net tuition and fees	77,424,647	-	77,424,647
Government and grants	2,683,594	-	2,683,594
Contributions	4,688,657	-	4,688,657
Short-term investment gain	157,002	-	157,002
Long-term investment income and gains allocated for operations	3,597,111	-	3,597,111
Interest and dividends	134,132	-	134,132
Sales and services of educational activities	888,788	-	888,788
Other sources	3,035,124	-	3,035,124
Sales and services of auxiliary enterprises	<u>17,500,849</u>	<u>-</u>	<u>17,500,849</u>
<b>TOTAL REVENUES, GAINS AND OTHER SUPPORT</b>	<u>110,109,904</u>	<u>-</u>	<u>110,109,904</u>
<b>Expenses</b>			
Program Expenses			
Instruction	38,452,043	-	38,452,043
Public service	4,939,304	-	4,939,304
Academic support	7,778,547	-	7,778,547
Student services	21,135,312	-	21,135,312
Auxiliary enterprises	18,350,474	-	18,350,474
Support Expenses			
Institutional support	18,329,487	-	18,329,487
Allocable expenses			
Operation and maintenance of plant	8,672,400	-	8,672,400
Depreciation	7,599,161	-	7,599,161
Interest	3,134,060	-	3,134,060
Less: Allocated expenses	<u>(19,405,621)</u>	<u>-</u>	<u>(19,405,621)</u>
<b>TOTAL OPERATING EXPENSES</b>	<u>108,985,167</u>	<u>-</u>	<u>108,985,167</u>
Change in net assets from operating activities	<u>1,124,737</u>	<u>-</u>	<u>1,124,737</u>
<b>NON-OPERATING</b>			
Endowment income	135,477	-	135,477
Less: Long-term investment income and gains allocated for operations	<u>(3,597,111)</u>	<u>-</u>	<u>(3,597,111)</u>
Investment return distributed	(3,461,634)	-	(3,461,634)
Net gains (losses) on other investments	(4,463)	(160)	(4,623)
Net gain on CEFA bond reserve	151,831	-	151,831
Unrealized gain on interest rate exchange agreement	31,509	-	31,509
Deferred giving - gifts	3,036,262	-	3,036,262
Capital giving - gifts	2,534,319	-	2,534,319
Gains (losses) on funds held in trust by others	(53,142)	-	(53,142)
Adjustment to actuarial liability for annuities payable	88,100	(154,055)	(65,955)
Loss on disposal of property, plant and equipment	<u>-</u>	<u>-</u>	<u>-</u>
Change in net assets from nonoperating activities	<u>2,322,782</u>	<u>(154,215)</u>	<u>2,168,567</u>
<b>CHANGE IN NET ASSETS</b>	<u>3,447,519</u>	<u>(154,215)</u>	<u>3,293,304</u>
NET ASSETS, beginning of year	<u>222,927,892</u>	<u>2,414,990</u>	<u>225,342,882</u>
NET ASSETS, end of year	<u>\$ 226,375,411</u>	<u>\$ 2,260,775</u>	<u>\$ 228,636,186</u>