

# AZUSA PACIFIC UNIVERSITY AND AFFILIATE

Combined Financial Statements  
With Independent Auditors' Report

June 30, 2015 and 2014

# AZUSA PACIFIC UNIVERSITY AND AFFILIATE

## Table of Contents

	<u>Page</u>
Independent Auditors' Report	1
Combined Financial Statements	
Combined Statements of Financial Position	3
Combined Statements of Activities	4
Combined Statements of Cash Flows	6
Notes to Combined Financial Statements	8
Supplemental Information	
Independent Auditors' Report on Supplemental Information	34
Supplemental Combining Statements of Financial Position	35
Supplemental Combining Statements of Activities	37

## INDEPENDENT AUDITORS' REPORT

Board of Trustees  
Azusa Pacific University and Affiliate  
Azusa, California

We have audited the accompanying combined financial statements of Azusa Pacific University and Affiliate (the University), which comprise the combined statements of financial position as of June 30, 2015 and 2014, and the related combined statements of activities and cash flows for the years then ended, and the related notes to the combined financial statements.

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

Management is responsible for the preparation and fair presentation of these combined 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 combined financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the University's preparation and fair presentation of the combined 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 University'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 combined financial statements.

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

Board of Trustees  
Azusa Pacific University and Affiliate  
Azusa, California

***Opinion***

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of Azusa Pacific University and Affiliate as of June 30, 2015 and 2014, and the changes in its combined net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Correction of Prior Year Misstatement***

During the current year, management made prior period adjustments to correct net asset balances as of June 30, 2013. Accordingly, beginning of the period net assets were adjusted, as further described in Note 15 to the combined financial statements. The prior period adjustments do not modify our opinion on these combined

*Capin Crouse LLP*

Brea, California  
November 30, 2015

# AZUSA PACIFIC UNIVERSITY AND AFFILIATE

## Combined Statements of Financial Position

	June 30,	
	2015	2014
<b>ASSETS:</b>		
Cash and cash equivalents	\$ 22,837,987	\$ 21,466,364
Investments	85,339,818	85,814,605
Student accounts receivable, less allowance	10,932,138	8,946,420
Accounts receivable, less allowance	2,577,008	3,247,295
Beneficial interest in trusts held by others	2,866,780	2,230,290
Contributions receivable, less allowance	322,244	835,000
Loans to students, less allowance	8,612,354	7,397,012
Inventories	1,799,131	1,664,868
Notes receivable	408,773	408,773
Assets whose use is limited	315,224	5,596,723
Deposits and other assets	3,762,026	4,020,546
Land, buildings, and equipment, net	220,957,777	224,746,062
	<b>\$ 360,731,260</b>	<b>\$ 366,373,958</b>
<b>LIABILITIES AND NET ASSETS:</b>		
Liabilities:		
Accounts payable and accrued liabilities	\$15,257,362	\$14,234,202
Interest rate swap liability	18,388,422	17,043,820
Deferred revenue	6,297,638	6,437,034
Annuities payable	1,288,290	1,405,007
Trust liabilities	7,363,564	7,579,714
Government grants refundable	4,072,503	4,072,503
Bond premium	5,860,501	-
Notes and bonds payable	132,300,171	129,233,115
Asset retirement obligation	1,122,364	1,112,343
Capital lease obligation	4,839,706	4,892,738
Other liabilities	1,851,229	1,936,605
	<b>198,641,750</b>	<b>187,947,081</b>
Net assets:		
Unrestricted	111,882,829	128,700,538
Temporarily restricted	19,307,151	21,729,596
Permanently restricted	30,899,530	27,996,743
Total Net Assets	<b>162,089,510</b>	<b>178,426,877</b>
Total Liabilities and Net Assets	<b>\$ 360,731,260</b>	<b>\$ 366,373,958</b>

See notes to combined financial statements

# AZUSA PACIFIC UNIVERSITY AND AFFILIATE

## Combined Statement of Activities

Year Ended June 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>SUPPORT, REVENUE, AND RECLASSIFICATIONS:</b>				
Tuition and fees	\$ 262,834,136	\$ -	\$ -	\$ 262,834,136
Less tuition assistance	(65,284,267)	-	-	(65,284,267)
Net tuition and fees	197,549,869	-	-	197,549,869
Auxiliary enterprises	33,133,667	-	-	33,133,667
Government grants and contracts		335,481	-	335,481
Private gifts, grants, and contracts	5,268,224	943,657	254,553	6,466,434
Pledge income	-	472,499	-	472,499
Investment income	3,617,643	1,688,650	-	5,306,293
Net loss on investments	(13,734)	(797,188)	-	(810,922)
Outreach ministries	781,574	-	-	781,574
Endowment gifts	-	-	2,537,349	2,537,349
Other income	4,326,276	447,620	8,113	4,782,009
	244,663,519	3,090,719	2,800,015	250,554,253
Net assets released from restrictions and redesignation	5,980,720	(5,980,720)	-	-
<b>Total Support, Revenue, and Reclassifications</b>	<b>250,644,239</b>	<b>(2,890,001)</b>	<b>2,800,015</b>	<b>250,554,253</b>
<b>OPERATING EXPENSES:</b>				
Instruction	96,349,328	-	-	96,349,328
Auxiliary enterprises	16,515,419	-	-	16,515,419
Academic support	20,705,533	-	-	20,705,533
Student services	38,237,111	-	-	38,237,111
Institutional support	46,144,775	-	-	46,144,775
Fund-raising	3,382,101	-	-	3,382,101
Operation and maintenance of plant	7,148,674	-	-	7,148,674
Depreciation	12,555,347	-	-	12,555,347
Amortization	122,033	-	-	122,033
Interest on indebtedness	8,372,128	-	-	8,372,128
<b>Total Operating Expenses</b>	<b>249,532,449</b>	<b>-</b>	<b>-</b>	<b>249,532,449</b>
Change in Net Assets From Operations	1,111,790	(2,890,001)	2,800,015	1,021,804
<b>OTHER CHANGES IN NET ASSETS:</b>				
Accretion for asset retirement obligation	(43,476)	-	-	(43,476)
Change in value of beneficial trust	-	636,490	-	636,490
Change in value of split-interest agreements	75,782	15,037	(81,199)	9,620
Redesignation of trust		(183,971)	183,971	-
Loss on extinguishment of debt	(16,617,203)	-	-	(16,617,203)
Unrealized loss on interest rate swap	(1,344,602)	-	-	(1,344,602)
Change in Net Assets	(16,817,709)	(2,422,445)	2,902,787	(16,337,367)
Net Assets, Beginning of Year	128,700,538	21,729,596	27,996,743	178,426,877
Net Assets, End of Year	<u>\$ 111,882,829</u>	<u>\$ 19,307,151</u>	<u>\$ 30,899,530</u>	<u>\$ 162,089,510</u>

See notes to combined financial statements

# AZUSA PACIFIC UNIVERSITY AND AFFILIATE

## Combined Statement of Activities

Year Ended June 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>SUPPORT, REVENUE, AND RECLASSIFICATIONS:</b>				
Tuition and fees	\$263,600,792	\$ -	\$ -	\$263,600,792
Less tuition assistance	(\$64,982,297)	-	-	(\$64,982,297)
Net tuition and fees	198,618,495	-	-	198,618,495
Auxiliary enterprises	34,500,900	-	-	34,500,900
Government grants and contracts	8,000	218,580	-	226,580
Private gifts, grants, and contracts	4,949,758	904,161	196,431	6,050,350
Pledge income	-	1,250,000	-	1,250,000
Investment income	3,904,985	1,971,830	3,138	5,879,953
Net gain on investments	3,305,960	926,309	40,099	4,272,368
Outreach ministries	920,364	-	-	920,364
Endowment gifts	-	-	1,400,393	1,400,393
Other income	4,587,225	126,251	70,762	4,784,238
	<u>250,795,687</u>	<u>5,397,131</u>	<u>1,710,823</u>	<u>257,903,641</u>
Net assets released from restrictions and redesignation	3,832,364	(3,832,364)	-	-
Total Support, Revenue, and Reclassifications	<u>254,628,051</u>	<u>1,564,767</u>	<u>1,710,823</u>	<u>257,903,641</u>
<b>OPERATING EXPENSES:</b>				
Instruction	98,623,689	-	-	98,623,689
Auxiliary enterprises	16,792,712	-	-	16,792,712
Academic support	18,696,034	-	-	18,696,034
Student services	37,826,978	-	-	37,826,978
Institutional support	48,715,803	-	-	48,715,803
Fund-raising	3,062,547	-	-	3,062,547
Operation and maintenance of plant	6,433,093	-	-	6,433,093
Depreciation	12,122,900	-	-	12,122,900
Amortization	97,626	-	-	97,626
Interest on indebtedness	8,775,782	-	-	8,775,782
Total Operating Expenses	<u>251,147,164</u>	<u>-</u>	<u>-</u>	<u>251,147,164</u>
Change in Net Assets From Operations	3,480,887	1,564,767	1,710,823	6,756,477
<b>OTHER CHANGES IN NET ASSETS:</b>				
Accretion for asset retirement obligation	(41,015)	-	-	(41,015)
Change in value of split-interest agreements	(30,598)	490,669	115,679	575,750
Unrealized gain on interest rate swap	17,830	-	-	17,830
Change in Net Assets, as restated (Note 15)	3,427,104	2,055,436	1,826,502	7,309,042
Net Assets, Beginning of Year, as Restated	<u>125,273,434</u>	<u>19,674,160</u>	<u>26,170,241</u>	<u>171,117,835</u>
Net Assets, End of Year, as Restated	<u>\$ 128,700,538</u>	<u>\$ 21,729,596</u>	<u>\$ 27,996,743</u>	<u>\$ 178,426,877</u>

See notes to combined financial statements

# AZUSA PACIFIC UNIVERSITY AND AFFILIATE

## Combined Statements of Cash Flows

	Year Ended June 30,	
	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ (16,337,367)	\$ 7,309,042
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Gifts of investments	(225,000)	-
Gifts of equipment	-	(66,740)
Gifts restricted for endowments and capital projects	(3,538,930)	(3,301,659)
New promises to give	99,745	(1,250,000)
Investment realized and unrealized (gain) loss	1,312,077	(717,916)
Loss on extinguishment of debt	16,617,203	-
Depreciation expense	12,555,347	12,122,900
Amortization expense	122,033	97,626
Actuarial change - annuities payable	(122,800)	(47,028)
Payments to annuitants	125,430	124,114
Matured annuities	-	(19,152)
Asset retirement obligation	10,021	41,015
Actuarial change - trust liabilities	(795,731)	(451,546)
Payments of trust liabilities	863,085	918,579
Change in value of interest rate swap	1,344,602	(17,830)
Changes in assets and liabilities:		
Accounts receivable, net	(1,743,682)	(1,752,028)
Beneficial interest in trusts held by others	(636,490)	-
Contributions receivable, net	413,011	-
Inventories	(134,262)	285,910
Deposits and other assets	136,487	(100,156)
Assets whose use is limited	(200,000)	-
Accounts payable and accrued liabilities	1,451,405	1,612,115
Deferred revenue	(139,396)	3,133,510
Other liabilities	(150,567)	83,416
<b>Net Cash Provided by Operating Activities</b>	<b>11,026,221</b>	<b>18,004,172</b>

(continued)

See notes to combined financial statements

# AZUSA PACIFIC UNIVERSITY AND AFFILIATE

## Combined Statements of Cash Flows

	Year Ended June 30,	
	2015	2014
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of investments	(60,361,147)	(18,950,755)
Proceeds from sales of investments	59,748,857	24,105,163
Capital expenditures	(8,767,061)	(6,934,900)
Additions to notes receivable	-	(58,773)
Collections on notes receivables	-	270,000
Student loans:		
New loans made	(2,186,635)	(1,533,780)
Principal collected	971,293	1,464,516
Reductions (additions) to assets whose use is limited	5,481,499	(20,138)
Net Cash Used by Investing Activities	(5,113,194)	(1,658,667)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Collections of promises to give	-	842,500
New annuity agreements	10,000	212,756
Gift portion of new annuity agreements	(3,918)	(60,475)
Payments to annuitants	(125,430)	(124,114)
New trust agreements	925,400	480,000
Gift portion of new trust agreements	(345,816)	(141,700)
Payments of trust liabilities	(863,085)	(918,579)
Payments on capital lease obligation	(53,031)	(49,124)
Loss on extinguishment of debt	(16,617,203)	-
Bond premium received on refunding	5,909,749	-
Repayment on debt	(128,642,000)	(2,661,982)
Proceeds from borrowing	131,725,000	-
Contributions restricted for endowments and capital projects	3,538,930	3,301,659
Net Cash Provided by (Used by) Financing Activities	(4,541,404)	880,941
Change in Cash and Cash Equivalents	1,371,623	17,226,446
Cash and Cash Equivalents, Beginning of Year	21,466,364	4,239,918
Cash and Cash Equivalents, End of Year	\$ 22,837,987	\$ 21,466,364
<b>SUPPLEMENTAL SCHEDULES OF NONCASH INVESTING AND FINANCING ACTIVITIES:</b>		
Cash paid for interest (\$0 capitalized in 2015 and 2014)	\$ 8,482,768	\$ 8,770,551
Non-cash transactions:		
Acquisition of capital equipment in accounts payable	\$ 1,006,667	\$ 369,215

See notes to combined financial statements

# AZUSA PACIFIC UNIVERSITY AND AFFILIATE

## Notes to Combined Financial Statements

June 30, 2015 and 2014

### 1. Nature of Organization

Celebrating over 116 years of God First and excellence in higher education, Azusa Pacific University (APU) is a comprehensive Christian, evangelical university, located 26 miles northeast of Los Angeles. With an enrollment of more than 10,755 students, APU offers over 100 bachelor's, master's, and doctoral programs on campus, online, and at seven regional centers throughout Southern California.

APU is accredited by the Accrediting Commission for Senior Colleges and Universities of the Western Association of Schools and Colleges and is classified as a "Comprehensive University II" by the Carnegie Foundation for the Advancement of Teaching. APU admits students from around the world, with the largest concentration coming from California. Revenues are derived primarily from tuition and other student charges.

Los Angeles Pacific University dba Azusa Pacific University College (APUC) is an evangelical Christian university with a strong, clear, unswervingly worldview that permeates the university and guides its activity. It believes that Biblical-based truth, knowledge, and scholarship should be available to everyone, everywhere, who has a passion to learn and make a difference in the world. Therefore, APUC exists to deliver high quality, accessible Christ-centered education to learners everywhere.

### 2. Summary of Significant Accounting Policies

#### Basis of Presentation

The combined financial statements of Azusa Pacific University and its affiliate, Los Angeles Pacific University, have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America and with the AICPA's Audit and Accounting Guide "Not-for-Profit Organizations."

The reporting entity includes Azusa Pacific University (APU) and Los Angeles Pacific University dba Azusa Pacific University College (APUC) and are together referred to as the University. The University, as an educational organization, is exempt from federal income taxes under Internal Revenue Code Section 501(c)(3) and from California income taxes under Section 23701d of the California Revenue and Taxation Code. APUC was incorporated in 2010 in California as a not-for-profit corporation exempt from federal income taxes under Section 501(c)(3) of the Code. APUC has been classified as a publicly supported organization, which is not a private foundation, under Section 509(a) of the Code. It is also exempt from California state income taxes under Section 23701d of the California Revenue and Taxation Code. Contributions by the public are deductible for income tax purposes.

Contributions, including unconditional promises to give, are recognized as revenue in the period received and are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the University and changes therein are classified and reported as follows:

- *Unrestricted net assets* – Net assets that are not subject to donor-imposed stipulations and that may be expendable for any purpose in performing the primary objectives of the University, board designated quasi endowment net assets, and net investment in land, buildings, and equipment.
- *Temporarily restricted net assets* – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the University and/or the passage of time. As the restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying combined financial statements as net assets released from restrictions.

# AZUSA PACIFIC UNIVERSITY AND AFFILIATE

## Notes to Combined Financial Statements

June 30, 2015 and 2014

### 2. Summary of Significant Accounting Policies (continued)

#### **Basis of Presentation (continued)**

- *Permanently restricted net assets* – Net assets for which the donor has stipulated that the principal be maintained in perpetuity. 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.

Expenses are recorded as incurred, reported as decreases in unrestricted net assets. Expirations of donor-imposed stipulations that simultaneously increase one class of net assets and decrease another are reported as reclassifications between the applicable classes of net assets. Temporarily restricted contributions received and expended in the same fiscal year are recorded as unrestricted net assets.

#### **Principles of Combination**

The combined financial statements include the financial resources and activities of Azusa Pacific University and Los Angeles Pacific University. All material transactions and balances between APU and APUC have been eliminated in the combined financial statements.

#### **Use of Estimates**

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

#### **Cash and Cash Equivalents**

Short-term investments with an original maturity of three months or less at the time of purchase are considered to be cash equivalents. The University maintains cash in various financial institutions that periodically, and as of year-end, exceeded federally insured limits. Certain federal loan programs require these funds to be maintained in separate bank accounts.

#### **Investments**

##### *Marketable Securities*

Investments in marketable securities are comprised of equity securities, corporate debt, and U.S. government obligations, and are stated at fair value based on quoted market prices.

##### *Other Investments*

Investments in real estate represent land and buildings owned by the University which are presently not being used for operating purposes. Such investments have been recorded at historical cost at their respective dates of acquisition or fair value at date of gift.

Investments also include mortgages and notes receivable from faculty and staff. Additionally, the University maintains investments in limited partnerships, the fair value of which is based on information provided by external investment managers at the most recent valuation date prior to fiscal year-end. Management monitors the activity of the external investment managers and performs reconciliations and other procedures to assure that the valuations used in the combined financial statements are fairly stated. The net realized and unrealized appreciation (depreciation) in fair value of investments is reflected in the combined statements of activities.

# AZUSA PACIFIC UNIVERSITY AND AFFILIATE

## Notes to Combined Financial Statements

June 30, 2015 and 2014

### 2. Summary of Significant Accounting Policies (continued)

#### **Investments (continued)**

A portion of the University's investments represent donations received through gift annuities, revocable trusts, and irrevocable trusts. These funds have been invested to make future payments to the beneficiaries under the terms of the agreements. Each split interest investment has an associated liability on the combined statements of financial position.

Investments held in revocable trusts for which the University acts as trustee are shown as investments with a corresponding liability until ownership passes to the University.

#### **Accounts Receivable and Notes Receivable**

Accounts and notes receivable are reported net of any anticipated losses due to uncollectible accounts. Student accounts receivable include amounts due to the University for tuition and fees. Student delinquent accounts are reported as additions to the allowance for bad debts when it is determined the amounts will become uncollectible. The University monitors student collections and when deemed necessary the University will assign the account to a collection agency. The University may assess a 1% interest on non-current accounts.

The allowance for doubtful accounts is maintained at a level which, in management's judgment, is adequate to absorb potential losses inherent in the receivable portfolio. An allowance for doubtful accounts is recorded annually based on historical experience and management's evaluation of receivables at the end of each year. The allowance for doubtful students accounts receivable was \$1,733,190 and \$1,416,251 for the years ended June 30, 2015 and 2014, respectively.

However, for student loans under the Perkins loan program, the allowance for doubtful accounts is based on management's evaluation of the collectability of the loan portfolio and trends in historical loss experience. Loans assigned to the Department of Education are charged to the allowance in the year they are assigned.

#### **Contributions Receivable**

Unconditional promises to give that are expected to be collected in future periods are recorded at net present value using a risk-free rate applicable to the years in which the promises were received. Amortization of the discount is recorded as contribution revenue. Conditional promises to give are recognized as revenue when the conditions are substantially met. The discount rate used during the years ended June 30, 2015 and 2014, was 6%. In 2015 the University established an allowance for uncollectible promises totaling \$27,501, there was no such allowance in 2014.

#### **Inventories**

Inventories, consisting primarily of textbooks, supplies, and computers held for resale at the campus bookstore and computer store are stated at the lower of cost or market using the first-in, first-out basis of accounting.

# AZUSA PACIFIC UNIVERSITY AND AFFILIATE

## Notes to Combined Financial Statements

June 30, 2015 and 2014

### 2. Summary of Significant Accounting Policies (continued)

#### Assets Whose Use is Limited

Assets whose use is limited are comprised of bond proceeds reserved for future use and bond reserve funds amounting to \$115,224 and \$5,596,723 as of June 30, 2015 and 2014, respectively. Such funds were invested in U.S. Treasury securities as of June 30, 2015, and cost approximates market value. The old bonds were refunded in April 2015. No reserve is required for the new bonds.

Assets whose use is limited is also comprised of one grant totaling \$200,000 from the Keck Foundation. These funds must be used for specific future educational endeavors.

#### Beneficial Interest in Trust Held By Others

Trust assets held by third parties consist of the University's beneficial interest in an irrevocable trust received during the year ended June 30, 2012. Under the terms of the trust, the University has an irrevocable right to receive the trust assets at the end of 25 years, or the passing of the settlors, if sooner. During the trust period, the settlors have rights to distribution of the net earnings of the trust assets. The fair value of the beneficial interest was \$2,866,780 and \$2,230,290 at June 30, 2015 and June 30, 2014, respectively.

#### Fixed Assets and Depreciation

Fixed assets are recorded at cost if purchased or if donated, at fair value at date of donation. The University's policy is to capitalize fixed asset expenditures when such assets benefit multiple years. Purchases of equipment and vehicles are capitalized when expenditures are equal to or in excess of \$5,000. Buildings and improvements are capitalized when equal to or in excess of \$25,000.

Depreciation is provided on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings and improvements	5 to 58 years
Equipment	3 to 10 years
Library books	10 years

The University has land and buildings under capital lease agreements. These assets are recorded at the lower of their fair market value or the present value of the minimum lease payments at the date entered into the lease. The properties will be donated to the University at the end of the leases, therefore the buildings are amortized over 20 and 25 years.

The University reviews fixed assets for impairment whenever events or changes in circumstances indicate that the carrying value of the fixed assets may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the asset to future net cash flows, undiscounted and without interest, expected to be generated by the asset. If such asset is considered to be impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the asset exceeds the fair value of the asset.

# AZUSA PACIFIC UNIVERSITY AND AFFILIATE

## Notes to Combined Financial Statements

June 30, 2015 and 2014

### 2. Summary of Significant Accounting Policies (continued)

#### Fixed Assets and Depreciation, continued

The special collections, works of art, and historical items consist of Dead Sea Scroll fragments, early edition King James Bibles, Hebrew Sefer Torah Scrolls, and various other biblical artifacts that are held for educational and curatorial purposes. Each of the items is cataloged, preserved, and cared for, and activities verifying their existence and assessing their condition are performed continuously. Collection items were capitalized at cost if purchased and at fair value at the date of accession if donated. Furthermore, the items are not depreciated because the items individually have a cultural, aesthetic, or historical value that is worth preserving perpetually and the University has the technological and financial ability to protect and preserve essentially undiminished the service potential of the items and is doing that.

#### Split-Interest Agreements

The University is the charitable remainder beneficiary of 46 trusts for which it also serves as trustee. The combined net assets are valued at \$7,468,402 and \$7,065,073 as of June 30, 2015 and 2014, respectively. The current use of these assets is restricted to earn income for the individual income beneficiaries named. Upon the occurrence of certain conditions specified in the charitable remainder trust agreements, the assets will be distributed to the University for the specified purposes. The fair value of trust assets held for third parties has been included in investments in the University's combined statements of financial position.

Liabilities totaling \$7,363,564 and \$7,579,714 as of June 30, 2015 and 2014, respectively, have been recorded and classified as "Trust liabilities" which represents future payments to be made to the donors or other beneficiaries from trust assets. At the time of the gift, the University recognizes revenue for the fair value of the trust assets less the present value of the estimated future payments to the donor or other beneficiaries. A liability is established for the difference between the fair market value of the assets the University held in trust and the revenue recognized. This liability is decreased as benefit payments are made to the donors and beneficiaries each year. Any fluctuations in the market value of the related trust assets and any income earned on the trust assets affect this liability.

The University is licensed by the State of California Department of Insurance (the Department) as an "Annuity Society." Under this designation, the Department requires that the University maintain a reserve adequate to meet future payments under the annuity contracts. The reserve included in investments totaled \$1,288,290 and \$1,405,007 as of June 30, 2015 and 2014, respectively. The reserve amount is based upon the most current annuity mortality table from the State of California Department of Insurance on the date of the agreement. The range of annuity rates for existing agreements is 4.6% to 9.6%.

#### Asset Retirement Obligations

The University has recorded asset retirement obligations associated with the legally required removal and disposal of certain hazardous materials, primarily asbestos, present in its facilities. When an asset retirement obligation is identified, the University records the fair value of the obligation as a liability. The fair value of the obligation is also capitalized as property, plant, and equipment and then amortized over the estimated useful life of the associated asset. The fair value of the asset retirement obligations was estimated using a discounted cash flow model. The present value of future estimated cash flows was calculated using the credit-adjusted, risk-free rate applicable to the University in order to determine the fair value of the asset retirement obligations.

# AZUSA PACIFIC UNIVERSITY AND AFFILIATE

## Notes to Combined Financial Statements

June 30, 2015 and 2014

### 2. Summary of Significant Accounting Policies (continued)

#### **Government Grants Refundable**

Government grants refundable are funds provided by the federal government for the purpose of providing loans to qualified students through the Federal Perkins Loan Program and the Nurse Faculty Loan Program.

#### **Revenue Recognition**

Student tuition and fees are recorded as revenues in the period during which the academic services are rendered. Student tuition and fees received prior to when services are rendered are recorded as deferred revenues. Revenue is earned once the tuition is no longer refundable. Traditional school terms end prior to fiscal year-end. For non-traditional programs, revenue is pro-rated between the fiscal years using the straight-line proportional method.

Gifts from donors are recorded as revenue in the year received. Contributions receivable are reported at their discounted present value.

#### **Functional Expenses**

Expenses that can be specifically identified with a specified program or supporting activity are charged directly to the related program or supporting activity. Expenses that are associated with more than one program or supporting activity are allocated based on an evaluation by management. Depreciation expense is allocated to the functional categories based upon the square foot occupancy. Interest expense is allocated to the functional categories based on the purpose of the related debt. Plant operations and maintenance represent space-related costs that are primarily allocated to the functional categories based on square foot occupancy. See note 11 for the functional allocation of expenses.

#### **Advertising**

Advertising expense was \$8,742,766 and \$8,653,855 for the years ended June 30, 2015 and 2014, respectively. Advertising costs are used to promote the University and are expensed as incurred.

#### **Fair Value of Financial Instruments**

A financial instrument is defined as a contractual obligation that ultimately ends with the delivery of cash or an ownership interest in an entity. Disclosures included in these notes regarding the fair value of financial instruments have been derived using external market sources or other valuation techniques. Determination of the fair value of student notes receivable, which are primarily federally sponsored loans with U.S. government mandated interest rates and repayment terms and subject to significant restrictions as to their transfer or disposition, and certain other notes receivable could not be made without incurring excessive costs.

# AZUSA PACIFIC UNIVERSITY AND AFFILIATE

## Notes to Combined Financial Statements

June 30, 2015 and 2014

### 2. Summary of Significant Accounting Policies (continued)

#### Fair Value of Financial Instruments, continued

The estimated fair value of the University's Series 2015 bonds payable approximates fair value as these instruments of financial indebtedness bear interest at variable rates which approximate current market rates for notes and bonds with similar maturities and credit quality. The University uses an overall interest rate risk-management strategy that incorporates the use of derivative instruments to minimize significant unplanned fluctuations in interest expense that are caused by interest rate volatility. Interest rate swaps involve the exchange of fixed and variable-rate interest payments between two parties, based on a common notional principal amount and maturity date. All derivative instruments are recognized on the combined statements of financial position at their fair values and changes in fair value are recognized in the combined statements of activities.

#### Uncertain Tax Positions

The financial statement effects of a tax position taken or expected to be taken are recognized in the combined financial statements when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. Interest and penalties, if any, are included in expenses in the combined statements of activities. The University files information tax returns in the U.S. and various states. The University is subject to income tax examinations for the current year and certain prior years based on the applicable laws and regulations.

#### Reclassifications

Certain prior year amounts have been reclassified in order to conform to current year presentation.

### 3. Investments

The carrying value of the University's investments at June 30, 2015 and 2014, are as follows:

	June 30,	
	2015	2014
Investments in marketable securities:		
Corporate stocks and bonds	\$ 26,528,123	\$ 24,914,624
Mutual funds	9,333,741	10,563,549
Money funds	2,843,690	3,171,184
Other investments:		
Certificates of deposit	6,068,706	5,997,696
Real estate and land	39,494,751	40,149,199
Other	1,070,807	1,018,353
	<u>\$ 85,339,818</u>	<u>\$ 85,814,605</u>

# AZUSA PACIFIC UNIVERSITY AND AFFILIATE

## Notes to Combined Financial Statements

**June 30, 2015 and 2014**

**4. Contributions Receivable**

Contributions receivable are expected to be received as follows at June 30, 2015 and 2014.

	June 30,	
	2015	2014
Within one year	\$ 322,244	\$ 585,000
Within two to five years	-	250,000
Less discount to reflect contributions receivable		-
Contributions receivable, net	\$ 322,244	\$ 835,000

Gross pledges receivable have the following designations:

	June 30,	
	2015	2014
Plant expansion	\$ 222,499	\$ 500,000
Trust receivable with irrevocable flip provision	99,745	335,000
	\$ 322,244	\$ 835,000

**5. Financing Receivables**

The University makes uncollateralized loans to students based on financial need. Student loans are funded through federal government loan programs or institutional resources. At June 30, 2015 and 2014, student loans receivable (net of allowance for doubtful accounts) represented 2.4% and 2.0% of total assets, respectively.

	June 30,	
	2015	2014
Federal government programs	\$ 8,827,766	\$ 7,513,597
Institutional and other	194,588	293,415
	9,022,354	7,807,012
Less allowance for doubtful accounts	(410,000)	(410,000)
Student Loans Receivable, Net	\$ 8,612,354	\$ 7,397,012

# AZUSA PACIFIC UNIVERSITY AND AFFILIATE

## Notes to Combined Financial Statements

June 30, 2015 and 2014

### 5. Financing Receivables (continued)

In addition to the loans identified above, the University processes and authorizes loans to students through alternative federal loan programs and federal direct loan programs. These loans are not recorded in the University's combined financial statement since the University does not guarantee any federal loan funds related to these programs. The amount of loans issued under these programs was approximately \$117,998,103 and \$114,287,259 for the years ended June 30, 2015 and 2014, respectively.

The University participates in the Perkins Federal Revolving Loan Program and the Nurse Faculty Loan Program (NFLP). The availability of funds for loans under the Perkins program is dependent on reimbursements to the pool from repayments on outstanding loans. The availability of funds for loans under NFLP is dependent on federal funding and repayments on outstanding loans. Funds advanced by the Federal government of \$8,827,766 and \$7,513,597 at June 30, 2015 and 2014, respectively, are ultimately refundable to the government and are classified as liabilities in government grants refundable in the combined statements of financial position. Outstanding loans cancelled under the program result in a reduction of the funds available for loan and a decrease in the liability to the government. At June 30, 2015 and 2014, the following amounts were past due under student loan programs:

<u>June 30,</u>	<u>1-60 days past due</u>	<u>60-90 days past due past due</u>	<u>90+ days past due</u>	<u>Total past due</u>
2015	168,665	65,540	767,182	1,001,387
2014	193,838	44,748	582,903	821,489

### 6. Retirement Plan

The University participates in an Internal Revenue Service Code 403(b) defined contribution retirement plan that is open to all employees who are at least 21 years of age, work a minimum of 1,000 hours per year, and have completed one year of employment at the University. The plan is funded through the Teacher Insurance and Annuity Association – College Retirement Equities Fund. Full vesting occurs upon the employee's initial investment. Under this plan, employees must contribute a minimum of 3% of their gross wages to participate. The University then contributes 8% of the employee's gross wages to the plan. The University's contributions to the plan for the years ended June 30, 2015 and 2014, totaled approximately \$6,612,798 and \$6,407,910 respectively.

# AZUSA PACIFIC UNIVERSITY AND AFFILIATE

## Notes to Combined Financial Statements

June 30, 2015 and 2014

**7. Land, Buildings, and Equipment, Net**

The University's land, buildings, and equipment consist of the following:

	June 30,	
	2015	2014
Land	\$ 55,875,289	\$ 55,875,289
Land under capital lease	1,885,000	1,885,000
Buildings and improvements	228,806,422	226,239,026
Buildings under capital lease	3,215,000	3,215,000
Equipment and vehicles	48,653,290	44,125,942
Library books	6,359,268	6,060,384
	344,794,269	337,400,641
Less accumulated depreciation	(128,003,393)	(115,538,794)
	216,790,876	221,861,847
Construction in progress	1,547,591	264,905
Special collections, works of art, and historical items	2,619,310	2,619,310
	220,957,777	224,746,062
Land, buildings, and equipment, net	220,957,777	224,746,062
Unamortized deferred loan cost	1,002,328	1,053,931
Less capital leases secured by land and buildings	(4,839,706)	(4,892,738)
Less premium on bond refunding	(5,860,501)	-
Less debt secured by land, buildings, and equipment	(131,838,000)	(128,755,000)
	\$ 79,421,898	\$ 92,152,255

**8. Notes and Bonds Payable**

A summary of notes and bonds payable is as follows:

	June 30,	
	2015	2014
<b>Notes payable</b>		
Uncollateralized loan to an individual, bearing no interest due March 2019, quarterly principal payments of \$62,500 beginning March 2017.	\$ 462,171	\$ 478,115
Total notes payable	\$ 462,171	\$ 478,115
<b>Bonds payable</b>		
Bond payable to the Department of Housing and Urban Development, collateralized by the Turner Campus Center and Adams Hall Dormitory, with interest at 3.0% per annum, due April 2017, interest payable semiannually and principal payable in increasing annual installments.	\$ 113,000	\$ 163,000
Bond payable to the Department of Housing and Urban Development, collateralized by Smith Hall Dormitory, with interest at 3.75% per annum due, April 2015, interest payable semiannually and principal payable in increasing annual installments.	-	17,000

# AZUSA PACIFIC UNIVERSITY AND AFFILIATE

## Notes to Combined Financial Statements

June 30, 2015 and 2014

### 8. Notes and Bonds Payable (continued)

	June 30,	
	2015	2014
<b>Bonds payable (continued)</b>		
Series 2011A variable rate demand refunding revenue bonds payable to a bank, collateralized by East Campus excluding Football Stadium and University Village to be remarketed April 2016, partially hedged by interest rate swap agreement with a bank, interest payable monthly and principal payable quarterly beginning July 1, 2011.	-	79,765,185
Series 2011 B refunding revenue bonds payable to California Municipal Financial Authority, collateralized by East Campus excluding Football Stadium and University Village, maturing April 2031 and 2041, respectively. Interest payable monthly and principal payments in increasing annual installments beginning October 1, 2011.	-	48,809,815
Series 2015A variable rate demand refunding revenue bonds payable to a bank, collateralized by East Campus excluding the modular student housing units to be remarketed April 2021, partially hedged by interest rate SWAP agreement with a bank, interest payable monthly and principal payable quarterly beginning in July 2015.	64,975,000	-
Series 2015B variable rate demand refunding revenue bonds payable to California Municipal Financial Authority, collateralized by East Campus excluding the modular student housing units, maturing April 2030, 2035, and 2041 respectively. Interest payable monthly beginning October 2015 and principal payable semi-annually beginning in April 2016.	66,750,000	-
Total bonds payable	131,840,015	128,757,014
Total notes and bonds payable	\$ 132,302,186	\$ 129,235,129

Annual maturities are as follows:

Year Ending June 30,	
2016	\$ 3,220,000
2017	3,307,608
2018	3,536,070
2019	3,528,493
2020	3,505,000
Thereafter	115,203,000
	\$ 132,300,171

# AZUSA PACIFIC UNIVERSITY AND AFFILIATE

## Notes to Combined Financial Statements

**June 30, 2015 and 2014**

### 8. Notes and Bonds Payable (continued)

#### Interest Rate Swap

The agreement is accounted for as a derivative instrument. The unrealized gains and losses on this agreement are included in other changes in net assets in the combined statements of activities and the corresponding fair value liability is included in interest rate swap liability in the combined statements of financial position.

	June 30,	
	2015	2014
Fixed rate	4.013%	4.013%
Variable rate	67% 1-month USD-LIBOR- BBA (0.12328% as of 06/30/15)	67% 1-month USD-LIBOR- BBA (0.10117% as of 06/30/14)
Maturity date	April 1, 2039	April 1, 2039
Remaining term of contract in years	23.8	24.8
Original bond payable balance covered by agreement (notional amount)	\$ 70,000,000	\$ 70,000,000
Notional amount outstanding at June 30	\$ 64,750,000	\$ 66,140,000

The effects of derivative instruments on the combined financial statements were as follows as of June 30, 2015 and 2014, and for the years then ended:

#### *Fair Value of Derivative Instruments in the Combined Statements of Financial Position*

	Statement Location	Fair Value	Fair Value
		2015	2014
Derivative instrument:			
Interest rate swap liability	Liabilities	\$ 18,388,422	\$ 17,043,820

#### *Effects of Derivative Instruments in Combined Statements of Activities*

	Statement Location	Loss	Gain
		2015	2014
Derivative instrument:			
Unrealized gain (loss) on swap	Other changes in net assets	\$ (1,344,602)	\$ 17,830

#### Loan Covenants

In conjunction with the bond issuance, the University is required to comply with certain financial ratio and reporting covenants. As of June 30, 2015 and 2014, the University was in compliance with the financial and reporting covenants.

#### Line of Credit

The University has a \$2 million line of credit with a bank. There were no draws on the line of credit at June 30, 2015 and 2014.

# AZUSA PACIFIC UNIVERSITY AND AFFILIATE

## Notes to Combined Financial Statements

**June 30, 2015 and 2014**

**9. Capital Lease Obligation**

The University has recorded two capital leases on which the lessors have agreed to donate and transfer the entire premise free and clear of monetary liens to the University at the end of lease at 20 and 25 years respectively. The properties under capital leases have a book value of \$2,600,000 and \$2,500,000 with accumulated amortization of \$36,691 and \$263,196 as of June 30, 2015 and 2014 respectively. Future minimum lease payments are:

Year Ending June 30		
2016	\$	746,400
2017		746,400
2018		757,500
2019		757,500
2020		768,600
Thereafter		12,067,537
		15,843,937
Less: interest		(11,004,231)
Net principal	\$	4,839,706
S/T Portion	\$	746,400
L/T Portion	\$	4,093,306

**10. Net Assets**

**Unrestricted Net Assets**

Unrestricted net assets , are as follows:

	June 30,	
	2015	2014
Undesignated	\$ 4,884,576	\$ 8,629,827
Gift annuities	288,044	164,521
Remainder interest trusts	(93,448)	(86,500)
Designated for endowment funds	27,381,759	27,840,435
Net investment in land, buildings, and equipment	79,421,898	92,152,255
	\$ 111,882,829	\$ 128,700,538

# AZUSA PACIFIC UNIVERSITY AND AFFILIATE

## Notes to Combined Financial Statements

June 30, 2015 and 2014

### 10. Net Assets (continued)

#### Temporarily Restricted Net Assets

Temporarily restricted net assets were available for the following purposes:

	June 30,	
	2015	2014
Gifts and grants to be used for operating purposes	\$ 1,995,903	\$ 3,881,756
Gifts to be used for capital purposes	4,380,271	5,289,312
Endowment	4,274,045	4,568,254
Beneficial interest in trust held by others	2,866,780	2,230,290
Gift annuities	16,795	19,660
Remainder interest trusts	5,773,357	5,740,324
	\$ 19,307,151	\$ 21,729,596

#### Permanently Restricted Net Assets

Permanently restricted net assets are restricted for investment in perpetuity and consist of the following:

	June 30,	
	2015	2014
Endowments	\$ 29,073,003	\$ 26,534,879
Gift Annuities	38,036	50,615
Remainder interest trusts	1,788,491	1,411,249
	\$ 30,899,530	\$ 27,996,743

The University endowment fund consists of individual donor restricted endowment funds and funds designated by the Board to function as endowments. The net assets associated with endowment funds, including those funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The University has interpreted the California State Prudent Management of Institutional Funds Act (SPMIFA) as imposing a duty on the University to use good faith and prudent care in adopting investment and spending policies to preserve endowment assets while providing income and appreciation to meet the donors' intention in perpetuity. As a result of this interpretation, the University classifies the following as permanently restricted net assets:

- (a) The original value of gifts donated to the permanent endowment,
- (b) The original value of subsequent gifts to the permanent endowment, and
- (c) Accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

# AZUSA PACIFIC UNIVERSITY AND AFFILIATE

## Notes to Combined Financial Statements

June 30, 2015 and 2014

### 10. Net Assets (continued)

#### Permanently Restricted Net Assets (continued)

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 SPMIFA.

The University made a decision to allow spending from endowment funds based on the current spending policy. In accordance with SPMIFA, the University considered the following factors in making their determination to appropriate or accumulate 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 expected total return from income and appreciation of investments
5. Other resources of the University
6. The investment policies of the University

Where the board designates unrestricted funds to function as endowments, they are classified as unrestricted net assets.

The following tables present the University's endowment composition, changes, and net asset classifications as of June 30, 2015.

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment funds	\$ -	\$ 4,274,045	\$ 29,073,003	\$ 33,347,048
Board designated endowment funds	27,381,759	-	-	27,381,759
Total Endowment Funds	<u>\$ 27,381,759</u>	<u>\$ 4,274,045</u>	<u>\$ 29,073,003</u>	<u>\$ 60,728,807</u>

# AZUSA PACIFIC UNIVERSITY AND AFFILIATE

## Notes to Combined Financial Statements

**June 30, 2015 and 2014**

**10. Net Assets (continued)**

**Permanently Restricted Net Assets (continued)**

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment net assets, June 30, 2014	\$ 27,840,435	\$ 4,568,254	\$ 26,534,879	\$ 58,943,568
Investment return:				
Net appreciation- realized and unrealized	(1,647,913)	(804,125)	-	(2,452,038)
Total investment return	1,057,054	883,347	-	1,940,401
Contributions	-	-	2,540,184	2,540,184
Appropriations of endowment expenses	(421,338)	-	-	(421,338)
Appropriations of endowment scholarships	(1,040,245)	(1,231,703)	-	(2,271,948)
Other changes:	(54,147)	54,147	(2,060)	-
Endowment net assets, June 30, 2015	\$ 27,381,759	\$ 4,274,045	\$ 29,073,003	\$ 60,728,807

The following tables present the University's endowment composition, changes, and net asset classifications as of June 30, 2014:

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Donor restricted endowment funds	\$ -	\$ 4,568,254	\$ 26,534,879	\$ 31,103,133
Board designated endowment funds	27,840,435	-	-	27,840,435
Total Endowment Funds	\$ 27,840,435	\$ 4,568,254	\$ 26,534,879	\$ 58,943,568

Changes in endowment net assets for year ended June 30, 2014:

# AZUSA PACIFIC UNIVERSITY AND AFFILIATE

## Notes to Combined Financial Statements

June 30, 2015 and 2014

### 10. Net Assets (continued)

#### Permanently Restricted Net Assets (continued)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, June 30, 2013	\$ 25,210,856	\$ 2,666,955	\$ 24,779,272	\$ 52,657,083
Investment return:				
Investment income	2,652,975	1,967,540	3,948	4,624,463
Net appreciation- realized and unrealized	1,604,648	971,948	-	2,576,596
Total investment return	4,257,623	2,939,488	3,948	7,201,059
Contributions	702,165	-	1,751,659	2,453,824
Appropriations of endowment expenses	(919,532)	-	-	(919,532)
Appropriations of endowment scholarships	(1,410,677)	(1,038,189)	-	(2,448,866)
Endowment net assets, June 30, 2014	<u>\$ 27,840,435</u>	<u>\$ 4,568,254</u>	<u>\$ 26,534,879</u>	<u>\$ 58,943,568</u>

#### Underwater Endowment Funds

From time to time, the fair value of assets associated with individual donor endowment funds may fall below the value of the initial and subsequent donor gift amounts (deficit). When donor endowment deficits exist, they are classified as a reduction of unrestricted net assets. Deficits of this nature reported in unrestricted net assets were \$54,147 and \$5,159 as of June 30, 2015 and 2014. Deficits resulted from unfavorable market conditions which resulted in negative investment returns.

#### Investment Objectives

The University has adopted endowment investment and spending policies that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of endowment assets. Under this policy, endowment assets are invested in a manner that is intended to exceed an absolute minimum rate of return (excess of inflation, spending rate, and investments costs) of 3.00% annually.

#### Strategies Employed for Achieving Investment Objectives

To achieve 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 gains) and current yield (interest and dividends). The University targets a diversified asset allocation to achieve its long-term objectives within prudent risk constraints.

# AZUSA PACIFIC UNIVERSITY AND AFFILIATE

## Notes to Combined Financial Statements

June 30, 2015 and 2014

### 10. Net Assets (continued)

#### Endowment Spending Allocation

The University's Investment Committee determines the method to be used to appropriate endowment funds for expenditure. The purpose of the endowment is to provide a perpetual source of operating support to endowed programs. The University's spending policy allocates total earnings from the portfolio between current spending and reinvestment for future earnings and has been designed with four objectives in mind:

1. Provide current programs with a predictable, stable stream of revenues
2. Ensure that the purchasing power or real value of the revenue stream does not decline over time
3. Ensure that the purchasing power or real value of the endowment assets does not decline over time
4. Ensure that the competing needs of current and future generations of students and faculty are in financial equilibrium

In order to offset the effect of lower current yields for current operations, the board of trustees (the Board), has adopted a spending policy for pooled endowment investments whereby the amount of investment return available for current operations is determined by applying a specific percentage range not to exceed 5% to the average market value of pooled endowment investments for the twelve trailing quarters. If the investment income of pooled endowment investments is insufficient to provide the full amount of investment return specified, the balance may be appropriated from accumulated realized and unrealized gains of the pooled endowment investments.

### 11. Allocation of Expenses

The University allocated depreciation, interest expense, and operation and maintenance of plant to the supporting and program services benefited for the years ended June 30, 2015 and 2014 as follows:

	<b>Expenses, as reported</b>	<b>Depreciation, Amortization and Related</b>	<b>Interest Expense</b>	<b>Operation and Maintenance of Plant</b>	<b>Total</b>
<b>2015</b>					
<b>Program services</b>					
Instruction	\$ 96,349,328	\$ 2,978,566	\$ 3,213,294	\$ 1,670,876	\$ 104,212,064
Auxiliary enterprises	16,515,419	1,161,136	5,158,834	594,824	23,430,213
Academic support	20,705,533	1,193,520	-	685,246	22,584,299
Student services	38,237,111	6,396,453	-	3,667,969	48,301,533
<b>Total program services</b>	<b>171,807,391</b>	<b>11,729,675</b>	<b>8,372,128</b>	<b>6,618,915</b>	<b>198,528,109</b>

# AZUSA PACIFIC UNIVERSITY AND AFFILIATE

## Notes to Combined Financial Statements

June 30, 2015 and 2014

### 11. Allocation of Expenses (continued)

	<b>Expenses, as reported</b>	<b>Depreciation, Amortization and Related</b>	<b>Interest Expense</b>	<b>Operation and Maintenance of Plant</b>	<b>Total</b>
<b>Supporting activities</b>					
Institutional support	46,144,775	947,705	-	529,759	47,622,239
Fund-raising	3,382,101	-	-	-	3,382,101
Total supporting activities	49,526,876	947,705	-	529,759	51,004,340
Operation and maintenance of plant	7,148,674	-	-	(7,148,674)	-
Depreciation, accretion, and amortization	12,677,380	(12,677,380)	-	-	-
Interest on indebtedness	8,372,128	-	(8,372,128)	-	-
Total expenses	<u>\$ 249,532,449</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 249,532,449</u>
	<b>Expenses, as reported</b>	<b>Depreciation, Amortization and Related</b>	<b>Interest Expense</b>	<b>Operation and Maintenance of Plant</b>	<b>Total</b>
<b>2014</b>					
<b>Program services</b>					
Instruction	\$ 98,623,689	\$ 2,867,355	\$ 3,375,941	\$ 1,503,621	\$ 106,370,606
Auxiliary enterprises	16,792,712	1,117,783	5,399,838	535,282	23,845,615
Academic support	18,696,034	1,151,062	-	616,653	20,463,749
Student services	37,826,978	6,164,295	-	3,300,807	47,292,080
Total program services	171,939,413	11,300,495	8,775,779	5,956,363	197,972,050

# AZUSA PACIFIC UNIVERSITY AND AFFILIATE

## Notes to Combined Financial Statements

June 30, 2015 and 2014

### 11. Allocation of Expenses (continued)

	Expenses, as reported	Depreciation, Amortization and Related	Interest Expense	Operation and Maintenance of Plant	Total
<b>Supporting activities</b>					
Institutional support	48,715,803	920,031	-	476,730	50,112,564
Fund-raising	3,062,547	-	-	-	3,062,547
 Total supporting activities	 51,778,350	 920,031	 -	 476,730	 53,175,111
 Operation and maintenance of plant	 6,433,093	 -	 -	 (6,433,093)	 -
Depreciation, accretion, and amortization	12,220,526	(12,220,526)	-	-	-
Interest on indebtedness	8,775,782	-	(8,775,779)	-	3
 Total expenses	 <u>\$ 251,147,164</u>	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ 251,147,164</u>

### 12. Fair Value of Financial Instrument Measurements

Fair Value Measurements topic of the FASB ASC establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels:

Level 1 – Quoted market prices in active markets for identical assets and liabilities

Level 2 – Observable market based inputs or unobservable inputs that are corroborated by market data

Level 3 – Pricing inputs are unobservable and include situations where there is little, if any market activity for the investment

The University uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the University measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs are only used when Level 1 or Level 2 inputs are not available.

Total investments consist of:

	June 30,	
	2015	2014
Investments held at fair value	\$ 39,776,361	\$ 39,667,710
 Held at other than fair value:		
Certificate of deposit	6,068,706	5,997,696
Real estate	37,827,263	38,438,711
Land	1,667,488	1,710,488
	<u>\$ 45,563,457</u>	<u>\$ 46,146,895</u>
	<u>\$ 85,339,818</u>	<u>\$ 85,814,605</u>

# AZUSA PACIFIC UNIVERSITY AND AFFILIATE

## Notes to Combined Financial Statements

June 30, 2015 and 2014

### 12. Fair Value of Financial Instrument Measurements (continued)

	June 30,	
	2015	2014
Components of investments:		
Investments available for operations	\$ 8,778,901	\$ 10,543,199
Investments held for restricted funds	2,050,163	1,944,901
Investments held for endowments	58,341,501	57,738,961
Investments held for annuity	1,684,251	1,722,576
Investments held for trusts	14,485,002	13,864,968
	\$ 85,339,818	\$ 85,814,605

The tables that follow present the balances of assets and liabilities measured at fair value on a recurring basis as of June 30, 2015 and 2014.

	June 30, 2015	Fair Value Measurements Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Investments:				
Money market funds	\$ 2,851,037	\$ 2,851,037	\$ -	\$ -
Common stocks and bonds:				
Small Cap	733,160	733,160	-	-
Commodity Related	1,969,525	1,969,525	-	-
Emerging Markets	3,165,149	3,165,149	-	-
Institutional International	9,542,657	9,542,657	-	-
Growth	5,728,181	5,728,181	-	-
Value	4,033,378	4,033,378	-	-
	25,172,050	25,172,050	-	-
Mutual funds:				
Multi-Strategy	1,684,251	-	1,684,251	-
High Yield	7,478,489	7,478,489	-	-
US Corporate			-	-
US Government	78,174	78,174	-	-
Total Return	1,367,207	-	1,367,207	-
Growth	74,345	74,345	-	-
	10,682,466	7,631,008	3,051,458	-

# AZUSA PACIFIC UNIVERSITY AND AFFILIATE

## Notes to Combined Financial Statements

June 30, 2015 and 2014

### 12. Fair Value of Financial Instrument Measurements (continued)

	June 30, 2015	Fair Value Measurements Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Other investments:				
Notes receivable	599,905	-	-	599,905
Limited partnerships	470,903	-	-	470,903
	<u>1,070,808</u>	<u>-</u>	<u>-</u>	<u>1,070,808</u>
Total	<u>\$ 39,776,361</u>	<u>\$ 35,654,095</u>	<u>\$ 3,051,458</u>	<u>\$ 1,070,808</u>
Liabilities				
Derivative contracts/swaps	<u>\$ 18,388,422</u>	<u>\$ -</u>	<u>\$ 18,388,422</u>	<u>\$ -</u>

	June 30, 2014	Fair Value Measurements Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Investments:				
Money market funds	<u>\$ 3,171,184</u>	<u>\$ 3,171,184</u>	<u>\$ -</u>	<u>\$ -</u>
Common stocks and bonds:				
Small Cap	651,877	651,877	-	-
Commodity Related	2,156,866	2,156,866	-	-
Emerging Markets	2,921,573	2,921,573	-	-
Institutional International	9,530,158	9,530,158	-	-
Growth	5,598,799	5,598,799	-	-
Value	4,055,371	4,055,371	-	-
	<u>24,914,644</u>	<u>24,914,644</u>	<u>-</u>	<u>-</u>
Mutual funds:				
Multi-Strategy	1,722,476	-	1,722,476	-
High Yield	8,012,089	8,012,089	-	-
US Government	1,436	1,436	-	-
Total Return	750,551	-	750,551	-
Growth	76,997	76,997	-	-
	<u>10,563,549</u>	<u>8,090,522</u>	<u>2,473,027</u>	<u>-</u>

# AZUSA PACIFIC UNIVERSITY AND AFFILIATE

## Notes to Combined Financial Statements

June 30, 2015 and 2014

### 12. Fair Value of Financial Instrument Measurements (continued)

	June 30, 2014	Fair Value Measurements Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Other investments:				
Notes receivable	537,450	-	-	537,450
Limited partnerships	480,903	-	-	480,903
	1,018,353	1,018,353	1,018,353	1,018,353
Total	\$ 39,667,710	\$ 37,194,703	\$ 3,491,380	\$ 1,018,353
Liabilities				
Derivative contracts/swaps	\$ 17,043,820	\$ -	\$ 17,043,820	\$ -

#### Level 1 Fair Value Measurements

Generally includes the fair values of corporate bonds, U.S. Government bonds, common stock, and mutual funds based on quoted market prices, when available.

#### Level 2 Fair Value Measurements

Generally includes the fair values of derivative contract/swaps, real estate, certain U.S. Government bonds, and mutual funds for which quoted market prices are not available or valued based on yields currently available on comparable securities of issuers with similar credit ratings.

#### Level 3 Fair Value Measurements

Generally includes the University's alternative investments, which consist of limited partnerships, notes receivable, and certain mutual funds. These investments do not typically transact on a regular basis, nor do they have readily determinable fair values. Therefore, the University relies heavily on investment manager-reported valuations for mutual funds and K-1 government filings for limited partnerships.

The University performed due diligence around all reported net asset values to ensure that the values are accurate and appropriate. For each investment, due diligence efforts included analysis of funds' audited financial statements, review of valuation policies and procedures, and review of other investment attributes including redemption terms and restrictions.

As a result of these efforts, the University concluded that no further adjustments to reported net asset values were necessary.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future values. In addition, while the University believes that 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.

# AZUSA PACIFIC UNIVERSITY AND AFFILIATE

## Notes to Combined Financial Statements

**June 30, 2015 and 2014**

### 12. Fair Value of Financial Instrument Measurements (continued)

The following table sets forth a reconciliation of beginning and ending balances, separately for each major category of assets for financial instruments designated as Level 3:

	Notes Receivable	Limited Partnerships	Mutual Funds	Total
<u>June 30, 2015</u>				
Balance, June 30, 2014	\$ 537,450	\$ 480,903	\$ -	\$ 1,018,353
Net collections	(31,698)	(13,487)	-	(45,185)
Realized losses	-	3,487	-	3,487
Additional investment	94,153	-	-	94,153
Unrealized gains	-	-	-	-
	<u>\$ 599,905</u>	<u>\$ 470,903</u>	<u>\$ -</u>	<u>\$ 1,070,808</u>
<u>June 30, 2014</u>				
Balance, June 30, 2013	\$ 479,594	\$ 101,468	\$ 14,089	\$ 595,151
Net collections	-	(1,521)	(13,297)	(14,818)
Additional investment	57,856	381,320	-	439,176
Unrealized gains	-	(364)	(792)	(1,156)
	<u>\$ 537,450</u>	<u>\$ 480,903</u>	<u>\$ -</u>	<u>\$ 1,018,353</u>

Realized losses and unrealized gains in the table above are reflected in the accompanying combined statements of activities.

### 13. Commitments and Contingencies

In the normal course of operations, the University is named as a defendant in suits and is subject to periodic examinations by regulatory agencies. After consultation with legal counsel, management of the University is of the opinion that no other liabilities, if any, arising from such litigation and examinations would have a material effect on the University's financial position.

The University has operating lease commitments covering facilities and equipment. The remaining balances of these lease commitments at June 30, 2015 are summarized as follows:

Year Ending June 30	
2016	\$ 5,029,517
2017	4,611,198
2018	3,949,023
2019	2,815,744
2020	2,753,716
Thereafter	<u>18,127,796</u>
Total	<u>\$ 37,286,994</u>

# AZUSA PACIFIC UNIVERSITY AND AFFILIATE

## Notes to Combined Financial Statements

**June 30, 2015 and 2014**

### 13. Commitments and Contingencies (continued)

The maturity dates of the lease agreements range from July 2015 to December 2037, with monthly lease payments ranging from \$75 to \$365,000. Rent expense for the years ended June 30, 2015 and 2014 totaled approximately \$5,798,699 and \$5,582,766, respectively.

Certain federal grants, including financial aid which the University administers and for which it receives reimbursements, are subject to audit and final acceptance by federal granting agencies. Current and prior year costs of such grants are subject to adjustment upon audit. The amount of expenditures that may be disallowed by the grantor, if any, cannot be determined at this time, although the University expects such amounts, if any, would not have a significant impact on the financial position of the University.

The University had entered into construction contracts during the year. At June 30, 2015, commitments under these contracts was \$1,315,364.

### 14. Related Party Transactions

There are three international entities whose purpose is to provide international community, service, and scholarship opportunities for students. 1) Azusa Pacific International Education Foundation (API) is incorporated in the Republic of South Africa and its purpose is to facilitate a university study abroad program in South Africa. Two of the board members are senior management at the University; 2) Azusa Pacific International A.C. (Mexico); and 3) Amigos del Ejido, A.C. (Mexico). The University paid approximately \$1,872,500 and \$1,635,845 to these entities in the years end June 30, 2015 and 2014, respectively.

### 15. Prior Period Adjustments

Prior year net assets are restated to properly account for the liabilities associated with the Universities beneficial interest related to charitable remainder trusts. As a result of this restatement, net assets as of June 30, 2013 were restated.

	<u>Total Net Assets</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
June 30, 2013 net assets, as previously reported	\$ 178,501,828	\$ 125,273,434	\$ 24,494,861	\$ 28,733,533
Recognition of trust liabilities	(7,383,993)	-	(4,820,701)	(2,563,292)
June 30, 2013 net assets, as restated	<u>\$ 171,117,835</u>	<u>\$ 125,273,434</u>	<u>\$ 19,674,160</u>	<u>\$ 26,170,241</u>
June 30, 2014 trust liabilities as previously reported	\$ (7,383,993)	\$ (7,383,993)	\$ -	\$ -
Recognition of trust liabilities	(195,721)	(195,721)	-	-
June 30, 2014 trust liabilities, as restated	<u>\$ (7,579,714)</u>	<u>\$ (7,579,714)</u>	<u>\$ -</u>	<u>\$ -</u>

# AZUSA PACIFIC UNIVERSITY AND AFFILIATE

## Notes to Combined Financial Statements

**June 30, 2015 and 2014**

**15. Prior Period Adjustments (continued)**

	<b>Total Net Assets</b>	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>
June 30, 2014 change in net assets, as previously reported	\$ 6,882,931	\$ 3,440,946	\$ 1,682,476	\$ 1,759,509
Recognition in change in value of split interest agreements	426,112	-	359,119	66,993
June 30, 2014 net assets, as restated	<u>\$ 7,309,042</u>	<u>\$ 3,427,104</u>	<u>\$ 2,055,436</u>	<u>\$ 1,826,502</u>
June 30, 2014 net assets, as restated	<u>\$ 171,117,835</u>	<u>\$ 125,273,434</u>	<u>\$ 19,674,160</u>	<u>\$ 26,170,241</u>
Change in net assets, as restated	<u>7,309,042</u>	<u>3,427,104</u>	<u>2,055,436</u>	<u>1,826,502</u>
June 30, 2014 net assets, as restated	<u>\$ 178,426,877</u>	<u>\$ 128,700,538</u>	<u>\$ 21,729,596</u>	<u>\$ 27,996,743</u>

**Subsequent Events**

Subsequent events have been evaluated through the report date, which represents the date the combined financial statements were available to be issued. Subsequent events after that date have not been evaluated.

## **SUPPLEMENTAL INFORMATION**

**INDEPENDENT AUDITORS' REPORT  
ON SUPPLEMENTAL INFORMATION**

Board of Trustees  
Azusa Pacific University and Affiliate  
Azusa, California

We have audited the combined financial statements of Azusa Pacific University and Affiliate (the University) as of and for the years ended June 30, 2015 and 2014, and our report thereon dated November 30, 2015, which expressed an unmodified opinion on those combined financial statements, appears on page 1. Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The combining statements of financial position and activities is presented for purposes of additional analysis of the combined financial statements rather than to present the financial position and results of operations of the individual organizations, and it is not a required part of the combined 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 combined financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined 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 combined financial statements as a whole.

*Capin Crouse LLP*

Brea, California  
November 30, 2015

## AZUSA PACIFIC UNIVERSITY AND AFFILIATE

### Supplemental Combining Statement of Financial Position

June 30, 2015

	APU	APUC	Subtotal	Eliminating Entries	Total
<b>ASSETS:</b>					
Cash and cash equivalents	\$ 21,142,081	\$ 1,695,906	\$ 22,837,987	\$ -	\$ 22,837,987
Investments	85,339,818	-	85,339,818	-	85,339,818
Student accounts receivable, less allowance \$1,440,354	10,605,358	326,780	10,932,138	-	10,932,138
Accounts receivable, less allowance	3,005,256	915,692	3,920,948	(1,343,940)	2,577,008
Beneficial interest in trust held by others	2,866,780	-	2,866,780	-	2,866,780
Contributions receivable, less allowance	322,244	-	322,244	-	322,244
Loans to students	8,612,354	-	8,612,354	-	8,612,354
Inventories	1,799,131	-	1,799,131	-	1,799,131
Notes receivable	408,773	-	408,773	-	408,773
Assets whose use is limited	315,224	-	315,224	-	315,224
Deposits and other assets	3,578,707	183,319	3,762,026	-	3,762,026
Land, buildings, and equipment, net	220,188,020	769,757	220,957,777	-	220,957,777
<b>Total Assets</b>	<b>\$ 358,183,746</b>	<b>\$ 3,891,454</b>	<b>\$ 362,075,200</b>	<b>\$ (1,343,940)</b>	<b>\$ 360,731,260</b>
<b>LIABILITIES AND NET ASSETS:</b>					
Accounts payable and accrued liabilities	\$ 15,515,387	\$ 1,085,915	\$ 16,601,302	\$ (1,343,940)	\$ 15,257,362
Interest rate swap liability	18,388,422	-	18,388,422	-	18,388,422
Deferred revenue	5,280,707	1,016,931	6,297,638	-	6,297,638
Annuities payable	1,288,290	-	1,288,290	-	1,288,290
Trust liabilities	7,363,564	-	7,363,564	-	7,363,564
Government grants refundable	4,072,503	-	4,072,503	-	4,072,503
Bond premium	5,860,501	-	5,860,501	-	5,860,501
Notes and bonds payable	131,838,000	462,171	132,300,171	-	132,300,171
Asset retirement obligation	1,122,364	-	1,122,364	-	1,122,364
Capital lease obligation	4,839,706	-	4,839,706	-	4,839,706
Other liabilities	1,851,229	-	1,851,229	-	1,851,229
<b>Total Liabilities</b>	<b>197,420,673</b>	<b>2,565,017</b>	<b>199,985,690</b>	<b>(1,343,940)</b>	<b>198,641,750</b>
<b>NET ASSETS:</b>					
Unrestricted	110,594,221	1,288,608	111,882,829	-	111,882,829
Temporarily restricted	19,269,322	37,829	19,307,151	-	19,307,151
Permanently restricted	30,899,530	-	30,899,530	-	30,899,530
<b>Total Net Assets</b>	<b>160,763,073</b>	<b>1,326,437</b>	<b>162,089,510</b>	<b>-</b>	<b>162,089,510</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 358,183,746</b>	<b>\$ 3,891,454</b>	<b>\$ 362,075,200</b>	<b>\$ (1,343,940)</b>	<b>\$ 360,731,260</b>

# AZUSA PACIFIC UNIVERSITY AND AFFILIATE

## Supplemental Combining Statement of Financial Position

June 30, 2014

	APU	APUC	Subtotal	Eliminating Entries	Total
<b>ASSETS:</b>					
Cash and cash equivalents	\$ 20,651,670	\$ 814,694	\$ 21,466,364	\$ -	\$ 21,466,364
Investments	85,814,605	-	85,814,605	-	85,814,605
Student accounts receivable, less allowance of \$1,416,251	8,743,964	202,456	8,946,420	-	8,946,420
Accounts receivable, less allowance	3,466,147	-	3,466,147	(218,852)	3,247,295
Beneficial interest in trusts held by others	2,230,290	-	2,230,290	-	2,230,290
Contributions receivable, less allowance	835,000	-	835,000	-	835,000
Loans to students, less allowance	7,397,012	-	7,397,012	-	7,397,012
Inventories	1,664,868	-	1,664,868	-	1,664,868
Notes receivable	408,773	-	408,773	-	408,773
Assets whose use is limited	5,596,723	-	5,596,723	-	5,596,723
Deposits and other assets	3,953,804	66,742	4,020,546	-	4,020,546
Land, buildings, and equipment, net	224,424,565	321,497	224,746,062	-	224,746,062
<b>Total Assets</b>	<b>\$ 365,187,421</b>	<b>\$ 1,405,389</b>	<b>\$ 366,592,810</b>	<b>\$ (218,852)</b>	<b>\$ 366,373,958</b>
<b>LIABILITIES AND NET ASSETS:</b>					
Accounts payable and accrued liabilities	\$ 13,834,486	\$ 618,568	\$ 14,453,054	\$ (218,852)	\$ 14,234,202
Interest rate swap liability	17,043,820	-	17,043,820	-	17,043,820
Deferred revenue	6,095,323	341,711	6,437,034	-	6,437,034
Annuities payable	1,405,007	-	1,405,007	-	1,405,007
Trust liabilities	7,579,714	-	7,579,714	-	7,579,714
Government grants refundable	4,072,503	-	4,072,503	-	4,072,503
Notes and bonds payable	128,755,000	478,115	129,233,115	-	129,233,115
Asset retirement obligation	1,112,343	-	1,112,343	-	1,112,343
Capital lease obligation	4,892,738	-	4,892,738	-	4,892,738
Other liabilities	1,936,605	-	1,936,605	-	1,936,605
<b>Total Liabilities</b>	<b>186,727,539</b>	<b>1,438,394</b>	<b>188,165,933</b>	<b>(218,852)</b>	<b>187,947,081</b>
<b>Net Assets:</b>					
Unrestricted	128,769,269	(68,731)	128,700,538	-	128,700,538
Temporarily restricted	21,693,870	35,726	21,729,596	-	21,729,596
Permanently restricted	27,996,743	-	27,996,743	-	27,996,743
<b>Total Net Assets</b>	<b>178,459,882</b>	<b>(33,005)</b>	<b>178,426,877</b>	<b>-</b>	<b>178,426,877</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 365,187,421</b>	<b>\$ 1,405,389</b>	<b>\$ 366,592,810</b>	<b>\$ (218,852)</b>	<b>\$ 366,373,958</b>

# AZUSA PACIFIC UNIVERSITY AND AFFILIATE

## Supplemental Combining Statement of Activities

Year Ended June 30, 2015

	APU	APUC	Subtotal	Eliminating Entries	Total
<b>SUPPORT, REVENUE, AND RECLASSIFICATIONS:</b>					
Tuition and fees	\$ 247,246,370	\$ 15,587,766	\$ 262,834,136	\$ -	\$ 262,834,136
Less tuition assistance	(65,166,572)	(117,695)	(65,284,267)	-	(65,284,267)
Net tuition and fees	182,079,798	15,470,071	197,549,869	-	197,549,869
Auxiliary enterprises	33,133,667	-	33,133,667	-	33,133,667
Government grants and contracts	335,481	-	335,481	-	335,481
Private gifts, grants, and contracts	6,437,288	29,146	6,466,434	-	6,466,434
Pledge income	472,499	-	472,499	-	472,499
Investment income	5,306,293	-	5,306,293	-	5,306,293
Net loss on investments	(810,922)	-	(810,922)	-	(810,922)
Outreach ministries	781,574	-	781,574	-	781,574
Endowment gifts	2,537,349	-	2,537,349	-	2,537,349
Other income	7,766,726	15,283	7,782,009	(3,000,000)	4,782,009
<b>Total Support, Revenue, and Reclassifications</b>	<b>238,039,753</b>	<b>15,514,500</b>	<b>253,554,253</b>	<b>(3,000,000)</b>	<b>250,554,253</b>
<b>OPERATING EXPENSES:</b>					
Instruction	92,934,465	3,414,863	96,349,328	-	96,349,328
Auxiliary enterprises	16,515,419	-	16,515,419	-	16,515,419
Academic support	19,297,867	1,407,666	20,705,533	-	20,705,533
Student services	34,315,766	3,921,345	38,237,111	-	38,237,111
Institutional support	43,800,903	5,343,872	49,144,775	(3,000,000)	46,144,775
Fund-raising	3,382,101	-	3,382,101	-	3,382,101
Operation and maintenance of plant	7,148,674	-	7,148,674	-	7,148,674
Depreciation	12,499,011	56,336	12,555,347	-	12,555,347
Amortization	122,033	-	122,033	-	122,033
Interest on indebtedness	8,361,156	10,972	8,372,128	-	8,372,128
<b>Total Operating Expenses</b>	<b>238,377,395</b>	<b>14,155,054</b>	<b>252,532,449</b>	<b>(3,000,000)</b>	<b>249,532,449</b>
Change in Net Assets From Operations	(337,642)	1,359,446	1,021,804	-	1,021,804
<b>OTHER CHANGES IN NET ASSETS:</b>					
Accretion for asset retirement obligation	(43,476)	-	(43,476)	-	(43,476)
Change in value of beneficial trust	636,490	-	636,490	-	636,490
Change in value of split-interest agreements	9,620	-	9,620	-	9,620
Loss on extinguishment of debt	(16,617,203)	-	(16,617,203)	-	(16,617,203)
Unrealized loss on interest rate swap	(1,344,602)	-	(1,344,602)	-	(1,344,602)
Change in Net Assets	(17,696,813)	1,359,446	(16,337,367)	-	(16,337,367)
Net Assets, Beginning of Year	178,459,886	(33,009)	178,426,877	-	178,426,877
<b>Net Assets, End of Year</b>	<b>\$ 160,763,073</b>	<b>\$ 1,326,437</b>	<b>\$ 162,089,510</b>	<b>\$ -</b>	<b>\$ 162,089,510</b>

## AZUSA PACIFIC UNIVERSITY AND AFFILIATE

### Supplemental Combining Statement of Activities

Year Ended June 30, 2014

	APU	APUC	Subtotal	Eliminating Entries	Total
<b>SUPPORT, REVENUE, AND RECLASSIFICATIONS:</b>					
Tuition and fees	\$ 256,239,439	\$ 7,361,353	\$ 263,600,792	\$ -	\$ 263,600,792
Less: Tuition assistance	(64,912,627)	(69,670)	(64,982,297)	-	(64,982,297)
Net tuition and fees	191,326,812	7,291,683	198,618,495	-	198,618,495
Auxiliary enterprises	34,500,900	-	34,500,900	-	34,500,900
Government, grants, contracts	226,580	-	226,580	-	226,580
Private gifts, grants, contracts	6,049,150	1,200	6,050,350	-	6,050,350
Pledge income	1,250,000	-	1,250,000	-	1,250,000
Investment income	5,879,953	-	5,879,953	-	5,879,953
Net gain on investments	4,272,368	-	4,272,368	-	4,272,368
Outreach ministries	920,364	-	920,364	-	920,364
Endowment gifts	1,400,393	-	1,400,393	-	1,400,393
Other income	4,766,306	17,932	4,784,238	-	4,784,238
<b>Total Support, Revenue, and Reclassifications</b>	<b>250,592,826</b>	<b>7,310,815</b>	<b>257,903,641</b>	<b>-</b>	<b>257,903,641</b>
<b>OPERATING EXPENSES:</b>					
Instruction	97,460,813	1,162,876	98,623,689	-	98,623,689
Auxiliary enterprises	16,792,712	-	16,792,712	-	16,792,712
Academic support	17,873,402	822,632	18,696,034	-	18,696,034
Student services	34,727,518	3,099,460	37,826,978	-	37,826,978
Institutional support	47,490,381	1,225,422	48,715,803	-	48,715,803
Fund-raising	3,062,547	-	3,062,547	-	3,062,547
Operation and maintenance of plant	6,433,093	-	6,433,093	-	6,433,093
Depreciation	12,052,185	70,715	12,122,900	-	12,122,900
Amortization	97,626	-	97,626	-	97,626
Interest on indebtedness	8,751,764	24,018	8,775,782	-	8,775,782
<b>Total Operating Expenses</b>	<b>244,742,041</b>	<b>6,405,123</b>	<b>251,147,164</b>	<b>-</b>	<b>251,147,164</b>
Change in Net Assets From Operations	5,850,785	905,692	6,756,477	-	6,756,477
<b>OTHER CHANGES IN NET ASSETS:</b>					
Accretion for asset retirement obligation	(41,015)	-	(41,015)	-	(41,015)
Change in value of split-interest agreements	575,750	-	575,750	-	575,750
Unrealized gain on interest rate swap	17,830	-	17,830	-	17,830
Change in Net Assets, as Restated	6,403,350	905,692	7,309,042	-	7,309,042
Net Assets, Beginning of Year, as Restated	172,056,532	(938,697)	171,117,835	-	171,117,835
<b>Net Assets, End of Year, As Restated</b>	<b>\$ 178,459,882</b>	<b>\$ (33,005)</b>	<b>\$ 178,426,878</b>	<b>\$ -</b>	<b>\$ 178,426,877</b>