Grant Thornton

Consolidated Financial Statements and Report of Independent Certified Public Accountants

BIOLA UNIVERSITY

June 30, 2015 (with comparative financial information for June 30, 2014)

Contents

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Trustees
Biola University and wholly owned subsidiary

Report on the financial statements

We have audited the accompanying consolidated financial statements of Biola University and its wholly owned subsidiary (collectively, the "University"), which comprise the consolidated statement of financial position as of June 30, 2015, 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 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 we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Biola University and its wholly owned subsidiary as of June 30, 2015, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other matters

Supplementary information

The accompanying consolidating information is presented for purposes of additional analysis, rather than to present the financial position, results of operations, and cash flows of the individual entities, and is not a required part of the consolidated financial statements. Such supplementary 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 audits of the consolidated financial statements and certain additional procedures. These additional procedures included comparing and reconciling the 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 consolidating information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Report on 2014 comparative information

We have previously audited the University's 2014 consolidated financial statements (not presented herein), and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 2, 2014. In our opinion, the accompanying summarized comparative information as of and for the year ended June 30, 2014 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Grant Thornton LLP

Los Angeles, California
November 23, 2015

Biola University
And wholly owned subsidiary

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2015
(with comparative information as of June 30, 2014)

	2015	2014
Assets		
Cash and cash equivalents	$ 56,511,000	$ 34,059,000
Accounts receivable, net of allowance of $391,000 and $403,000, respectively	2,073,000	1,491,000
Contributions receivable, net of allowance of $693,000 and $261,000, respectively	4,269,000	4,439,000
Prepaid expenses and other assets	1,667,000	1,604,000
Student loans and other notes receivable, net of allowance of $325,000 and $307,000, respectively	6,405,000	6,096,000
Investments	138,631,000	129,149,000
Assets whose use is limited	32,902,000	55,528,000
Land, buildings, and equipment, net	184,345,000	167,057,000
Total Assets	$ 426,803,000	$ 399,423,000
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	$ 17,650,000	$ 13,640,000
Deposits and deferred revenue	11,197,000	10,311,000
Amounts held on behalf of others	1,138,000	1,356,000
Trust and annuity obligations	5,806,000	6,854,000
Government student loan programs	3,095,000	3,059,000
Bonds payable	133,988,000	139,629,000
Asset retirement obligation	1,538,000	1,267,000
Total Liabilities	174,412,000	176,116,000
Net Assets		
Endowment and similar funds	82,047,000	77,051,000
Net investment in plant	62,365,000	62,904,000
Other unrestricted	42,722,000	36,985,000
Total unrestricted	187,134,000	176,940,000
Endowment and similar funds	9,559,000	10,365,000
Split-interest agreements	5,570,000	6,063,000
Construction and other capital purposes	22,951,000	4,455,000
Other temporarily restricted	5,618,000	5,487,000
Total temporarily restricted	43,698,000	26,370,000
Endowment and similar funds	19,576,000	18,017,000
Student loan funds	1,983,000	1,980,000
Total permanently restricted	21,559,000	19,997,000
Total Net Assets	252,391,000	223,307,000
Total Liabilities and Net Assets	$ 426,803,000	$ 399,423,000

The accompanying notes are an integral part of these consolidated financial statements.

Biola University
And wholly owned subsidiary

CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended June 30, 2015
(with summarized information for the year ended June 30, 2014)

	Unrestricted	Temporarily restricted	Permanently restricted	2015 Total	2014 Total
Operating					
Revenue and other support:					
Tuition and fees	$ 157,563,000	$ -	$ -	$ 157,563,000	$ 150,946,000
Less: financial assistance	(40,121,000)	-	-	(40,121,000)	(38,279,000)
Net tuition and fees	117,442,000	-	-	117,442,000	112,667,000
Sales and services of auxiliary enterprises	26,136,000	-	-	26,136,000	25,402,000
Contributions	3,090,000	5,391,000	-	8,481,000	7,148,000
Endowment distributions to support operations	2,070,000	994,000	-	3,064,000	2,550,000
Public and student service fees	3,854,000	-	-	3,854,000	3,898,000
Federal student aid grants	859,000	-	-	859,000	765,000
Other	1,695,000	-	-	1,695,000	1,455,000
Total operating revenue	155,146,000	6,385,000	-	161,531,000	153,885,000
Net assets released from restrictions	6,441,000	(6,441,000)	-	-	-
Total operating revenue and other support	161,587,000	(56,000)	-	161,531,000	153,885,000
Expenses:					
Program expenses:					
Instruction:					
School of Arts and Sciences	27,429,000	-	-	27,429,000	26,178,000
Talbot School of Theology	13,470,000	-	-	13,470,000	13,154,000
Rosemead School of Psychology	4,719,000	-	-	4,719,000	4,743,000
Cook School of Intercultural Studies	3,244,000	-	-	3,244,000	4,014,000
School of Education	2,844,000	-	-	2,844,000	2,628,000
Crowell School of Business	2,411,000	-	-	2,411,000	2,384,000
Interterm	556,000	-	-	556,000	598,000
Summer school	607,000	-	-	607,000	560,000
Academic support	12,772,000	-	-	12,772,000	11,492,000
Research	2,632,000	-	-	2,632,000	2,261,000
Student services	19,218,000	-	-	19,218,000	17,636,000
Public service	3,884,000	-	-	3,884,000	4,595,000
Auxiliary enterprises	29,121,000	-	-	29,121,000	28,882,000
Total program expenses	122,907,000	-	-	122,907,000	119,125,000
General administrative and institutional support	29,853,000	-	-	29,853,000	28,266,000
Total expenses	152,760,000	-	-	152,760,000	147,391,000
Change in net assets from operations	8,827,000	(56,000)	-	8,771,000	6,494,000
Other changes					
Contributions	1,004,000	20,755,000	1,601,000	23,360,000	3,786,000
Investment income, net	1,841,000	596,000	2,000	2,439,000	2,631,000
Realized and unrealized gain on investments, net	(1,880,000)	(565,000)	(41,000)	(2,486,000)	14,373,000
Endowment distributions to support operations	(2,070,000)	(994,000)	-	(3,064,000)	(2,550,000)
Change in value of split interest agreements	(282,000)	412,000	-	130,000	565,000
Provision for and amortization of asset retirement obligation	(66,000)	-	-	(66,000)	(63,000)
Net assets released from restrictions:					
Matured annuities and trusts	905,000	(905,000)	-	-	-
Capital assets placed into service	1,915,000	(1,915,000)	-	-	-
Total other changes in net assets	1,367,000	17,384,000	1,562,000	20,313,000	18,742,000
Change in net assets	10,194,000	17,328,000	1,562,000	29,084,000	25,236,000
Net assets at beginning of year	176,940,000	26,370,000	19,997,000	223,307,000	198,071,000
Net assets at end of year	$ 187,134,000	$ 43,698,000	$ 21,559,000	$ 252,391,000	$ 223,307,000

The accompanying notes are an integral part of these consolidated financial statements.

Biola University
And wholly owned subsidiary

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended June 30, 2015
(with comparative information as of June 30, 2014)

	2015	2014
Cash flows from operating activities:		
Change in net assets	$ 29,084,000	$ 25,236,000
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Provision for and amortization of asset retirement obligation	66,000	63,000
Provision for doubtful accounts	451,000	-
Depreciation and amortization	10,379,000	9,941,000
Contributions restricted for long-term investment	(22,356,000)	(3,453,000)
Investment income restricted for long-term investment	(2,000)	(6,000)
Realized and unrealized gains on investments	2,486,000	(14,338,000)
Change in value of split-interest agreements	(130,000)	(565,000)
Net loss on sales of equipment	1,000	13,000
Changes in:		
Accounts receivable	(582,000)	1,377,000
Contributions receivable	196,000	353,000
Prepaid expenses and other assets	(63,000)	104,000
Accounts payable and accrued expenses	1,793,000	227,000
Deposits and deferred revenue	886,000	4,223,000
Net cash provided by operating activities	22,209,000	23,175,000
Cash flows from investing activities:		
Purchase of investments	(25,077,000)	(33,155,000)
Proceeds from sales and maturities of investments	35,146,000	37,142,000
Acquisition of land, buildings, and equipment	(24,565,000)	(20,686,000)
Proceeds from sales of equipment	52,000	55,000
Disbursement of student loans and others	(1,427,000)	(1,086,000)
Proceeds from repayment of student loans and others	1,137,000	1,169,000
Net cash used in investing activities	(14,734,000)	(16,561,000)
Cash flows from financing activities:		
Principal payments on bonds payable	(5,803,000)	(4,749,000)
Payments to beneficiaries under split-interest agreements	(1,235,000)	(669,000)
Receipts from split-interest agreements	115,000	1,021,000
Contributions received restricted for long-term investment	21,898,000	3,579,000
Investment income restricted for long-term investment	2,000	6,000
Net cash provided by (used in) financing activities	14,977,000	(812,000)
Net increase in cash and cash equivalents	22,452,000	5,802,000
Cash and cash equivalents at beginning of year	34,059,000	28,257,000
Cash and cash equivalents at end of year	$ 56,511,000	$ 34,059,000
Supplemental disclosure of cash flow information:		
Cash paid for interest, net of amounts capitalized of of $1,038,000 and $438,000, respectively	$ 6,479,000	$ 7,339,000
Supplemental disclosure of non-cash activities:		
Gifts of securities	$ 13,405,000	$ 90,000
Acquisitions of capital assets in accounts payable	$ 3,765,000	$ 1,548,000

The accompanying notes are an integral part of these consolidated financial statements.

NOTE 1 – ORGANIZATION

Biola University (the "University") is a private independent institution that was incorporated in the state of California in 1908 as the Bible Institute of Los Angeles. Responding to changing needs since 1908, the University expanded its academic missions and programs, first from the Bible Institute to a Bible College, then to a Christian liberal arts college and theological seminary, and finally to a Christian university. Today, the University exists as a Christian university, sharing aspects of its mission with other institutions of higher learning, yet with certain distinctions. The mission of the University is biblically centered education, scholarship, and service – equipping men and women in mind and character to impact the world for the Lord Jesus Christ.

During the year-ended 2015, the University dissolved Arrington Square, a wholly owned for-profit subsidiary, which owned land and facilities that were used by the University in furtherance of its tax-exempt purposes. All land and facilities were transferred from Arrington Square to the University.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and include the accounts of the University and Arrington Square. As indicated in Note 1, Arrington Square was dissolved during the year but current year activity has been included in the consolidated financial statements. All significant intercompany transactions and balances have been eliminated.

The accompanying consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the University's consolidated financial statements as of and for the year ended June 30, 2014, from which the summarized comparative information was derived.

The University records contributions received, including unconditional promises to give, as revenues in the period received. Conditional promises to give, whether received or made, are recognized when they become unconditional, that is, when the conditions are substantially met. The University distinguishes between contributions received that increase permanently restricted net assets, temporarily restricted net assets, and unrestricted net assets, and recognizes the expiration of donor-imposed restrictions in the period in which the restrictions expire.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Basis of Presentation (continued)

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

- Unrestricted net assets generally represent funds generated by revenues from providing services and other net assets that are not subject to donor-imposed stipulations and that may be expended for any purpose in accomplishing the primary objectives of the University.

- Temporarily restricted net assets are classified as such based on donor stipulations that they be used in a later period, be used for a specific purpose, or both. As donor restrictions are satisfied, amounts are reclassified to unrestricted as net assets released from restrictions.

- Permanently restricted net assets are classified as such based upon donor stipulations that they be invested in perpetuity to provide a permanent source of income.

Use of Estimates

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

Reclassifications

Certain reclassifications have been made to the 2014 amounts to conform to the 2015 presentation on the accompanying consolidated statement of financial position and consolidated statement of activities.

Cash and Cash Equivalents

The University considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

The University's cash and cash equivalents consist of accounts maintained in recognized financial institutions. Some of these accounts have balances in excess of federally insured limits. Management continuously monitors its concentration of funds in financial institutions and reports the amounts to the Board of Trustees regularly.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Accounts Receivable, Net

Accounts receivable are reported at net realizable value less an allowance for doubtful accounts. Accounts receivable are written off against the allowance for doubtful accounts when determined to be uncollectible. The allowance for doubtful accounts is estimated based on the University's historical experience.

Contributions Receivable, Net

Unconditional promises to give "contributions receivable" that are expected to be collected within one year are recorded at estimated net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded as a contribution receivable at the present value of their estimated future cash flows. The discounts on those amounts are computed using a rate that is commensurate with the risks involved and applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue.

Student Loans and Other Notes Receivable, Net

Student loans and other notes receivable consist of amounts due under the federal loan programs and University loan programs and are stated at their outstanding principal amount, net of an allowance for uncollectible accounts. A third-party organization administers the collection process. Loans are made to students based on demonstrated financial need and satisfaction of federal eligibility requirements for the federal loan programs. Principal and interest payments on loans generally do not commence until after the borrower graduates or otherwise ceases enrollment.

Investments

The University reports its investments at fair value, except for real estate, which is recorded at cost or, if donated, at the appraised value at date of donation. Investments in real estate are reported at cost net of accumulated depreciation. All security transactions are recorded on a trade date basis. See Notes 5 and 6 for further information regarding investments and their fair value.

Assets Whose Use Is Limited

Assets whose use is limited includes bond proceeds restricted to debt service, bond proceeds restricted to construction projects, assets of charitable trusts, statutory reserves related to charitable gift annuities, and beneficiary interests in perpetual trusts held by others.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Beneficial Interest in Trusts

The University is named income beneficiary on various perpetual trusts, the corpus of which are not controlled by the management of the University. Under these arrangements, the University has the irrevocable right to receive all or a portion of the income earned on the underlying assets held in perpetuity. Accordingly, permanently restricted contribution revenue and the related assets are recognized at fair value in the period in which the University receives notice that the trust agreement conveys an unconditional right to receive benefits.

Subsequent changes in the value of the underlying assets have been recorded in the accompanying consolidated statement of activities as a component of permanently restricted realized and unrealized gains and losses on investments. Beneficial interests in perpetual trusts totaled $1,926,000 and $1,967,000 as of June 30, 2015 and 2014, respectively, and are included in assets whose use is limited in the accompanying consolidated statement of financial position.

Land, Buildings, and Equipment, Net

Land, buildings, and equipment are stated at cost, representing purchase price or, if donated, the fair market value at date of gift, less accumulated depreciation. Depreciation is computed on a straight-line basis over the respective estimated useful lives. The estimated lives for buildings and improvements range from 25 to 50 years and the estimated lives for equipment range from 5 to 7 years.

Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to undiscounted future net cash flows, without interest, expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less costs to sell. During 2015 and 2014, there were no events or changes in circumstances indicating that the carrying amount of the University's long-lived assets may not be recoverable and, accordingly, no impairment was recorded.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Compensated Absences

The University has a policy permitting employees to accumulate unused vacation benefits. The maximum that can be accrued by any one employee is the equivalent of two years' benefit. Upon termination or retirement, unused vacation benefits will be paid at the employee's regular payroll rate. The balance of unused vacation benefits at June 30, 2015 and 2014 was $2,884,000 and $2,723,000, respectively, and is included in accounts payable and accrued expenses in the accompanying consolidated statement of financial position.

Trust and Annuity Obligations

The University records assets and liabilities related to charitable trusts and charitable gift annuities as follows:

Charitable Trusts – The University serves as trustee for various charitable remainder trusts. Under the terms of these agreements, the University makes distributions to income beneficiaries for a given term or the life of the beneficiaries. At the end of the term, or upon the death of the income beneficiaries, assets remaining in the trust will be transferred to the University or the University and other named beneficiaries. The University records the assets held in these trusts at their fair value, records a liability for the respective agreements at the estimated discounted value of the amounts due to the income beneficiaries and records contribution revenue for the difference between the two values. The present value of payments to beneficiaries under these arrangements is calculated using Internal Revenue Service actuarial tables (Table 2000CM) and discount rates representing rates commensurate with the risks involved at the date of gift. The discount rates used for the years ended June 30, 2015 and 2014 ranged from 3% to 9%.

Gains or losses resulting from changes in actuarial assumptions and accretions of the discount are recorded as increases or decreases in the value of split-interest agreements in the accompanying consolidated statements of activities. The value of trust assets as of June 30, 2015 and 2014 was $9,920,000 and $11,478,000, respectively and are included in assets whose use is limited.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Trust and Annuity Obligations (continued)

Charitable Gift Annuities – Donors have contributed assets to the University in exchange for a promise by the University to pay a fixed amount for a specified period of time to the donor or to individuals designated by the donor. The University records contribution revenue using the fair value of the assets less the present value of the payments expected to be made to the beneficiaries. The present value of payments to beneficiaries under these arrangements is recorded as a liability and is calculated using discount rates representing rates commensurate with the risks involved at the date of gift. The discount rates used for the years ended June 30, 2015 and 2014 ranged from 3% to 8%. The states of California and Washington require the University to maintain segregated reserves related to its annuities. The value of assets held in segregated reserves as of June 30, 2015 and 2014 was $2,763,000 and $3,070,000, respectively and are included in assets whose use is limited.

Government Student Loan Programs

Funds provided by the U.S. government under the Federal Perkins and Nursing Student Loan programs are loaned to qualified students and may be reloaned after collections. These funds are ultimately refundable to the government and are included in government student loan programs in the accompanying consolidated statement of financial position. These advances totaled $3,095,000 and $3,059,000 at June 30, 2015 and 2014, respectively.

Asset Retirement Obligation

Accounting Standards Codification ("ASC") 410, *Asset Retirement and Environmental Obligations* ("ASC 410") requires organizations to accrue for costs related to legal obligations to perform certain activities in connection with the retirement, disposal, or abandonment of assets. The obligation to perform the asset retirement activity is not conditional even though the timing or method may be conditional.

The University identified future asbestos abatement activities as a conditional asset retirement obligation. Asbestos abatement activities were estimated based upon historical removal costs per square foot applied to assets identified requiring asbestos abatement. ASC 410 requires that the estimate be recorded as a liability and as an increase to the recorded historical cost of the asset. The capitalized portion is depreciated over the remaining useful life of the asset.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Asset Retirement Obligation (continued)

The present value of the asset retirement obligation related to the abatement activities totaled $1,538,000 and $1,267,000 as of June 30, 2015 and 2014, respectively, utilizing a discount rate of 5.24%. The liability will continue to be accreted to expense until such point that remediation costs are required.

In May 2015, the University entered into a lease agreement for nine modular buildings for a minimum period of 24 months. Although the University has the option to extend the lease on a month-to-month basis, the University will incur teardown and return charges at the end of the lease term. As a result, the University recorded the present value of the estimated charges as an asset retirement obligation. The present value of the related asset retirement obligation totaled $121,000 as of June 30, 2015 utilizing a discount rate of 4.38%. The liability will continue to be accreted to expense until such point that the teardown and return charges are required.

Income Taxes

The University has been recognized by the Internal Revenue Service as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and has also been recognized by the California Franchise Tax Board as a tax-exempt organization under Section 23701(d) of the California Revenue and Taxation Code. Arrington Square is subject to income taxes; however, no net income was generated by Arrington Square during the years ended June 30, 2015 and 2014. Accordingly, no provision for income taxes is included in the accompanying consolidated financial statements for the years ended June 30, 2015 and 2014. Additionally, the University is subject to income taxes on any net Unrelated Business Income that is derived from a trade or business, regularly carried on and not in the furtherance of the purposes for which it was granted exemption. No income tax provision has been recorded as the net income, if any, from any unrelated trade or business, in the opinion of management, is not material to the accompanying consolidated financial statements taken as a whole. Arrington Square has a net operating loss carry forward. However, there is no deferred tax asset for the loss carry forward as the ability to use the loss carry forward against future taxable income is uncertain.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Income Taxes (continued)

The University follows Financial Accounting Standard Board ("FASB") ASC 740, *Accounting for Income Taxes*, which establishes for all entities, including pass-through entities, a minimum threshold for financial statement recognition of the benefit of positions taken in filing tax returns (including whether an entity is taxable in a particular jurisdiction) and requires certain expanded tax disclosures. The open federal tax years for the University are generally tax years ended June 30, 2011 through 2015 and the open California state tax years are generally tax years ended June 30, 2010 through 2015. The open federal tax years for Arrington Square are generally tax years ended September 30, 2011 through 2015 and the open California state tax years are generally tax years ended September 30, 2010 through 2015. In addition, tax years ended September 30, 2001 through September 30, 2015 are open for federal tax purposes and tax years ended September 30, 2001 through September 30, 2015 are open for state purposes for Arrington Square to the extent tax net operating losses generated in those years are utilized. Management believes that no uncertain tax positions exist for the University at June 30, 2015 and 2014 or Arrington Square at September 30, 2015 and 2014 and management does not anticipate a change in uncertain tax benefits in the twelve months following June 30, 2015 and September 30, 2015.

New Accounting Pronouncements

In May 2015, the FASB issued Accounting Standards Update ("ASU") 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent)*. The guidance specifically classified how investments valued using the net asset value ("NAV") practical expedient within the fair value hierarchy should be classified. The ASU was issued in order to address diversity in practice. The amended standard's key provision exempts investments measured using the NAV practical expedient from categorization within the fair value hierarchy and related disclosures. The new guidance is effective for the University for the year ending June 30, 2017, with early adoption permitted. The University is currently in the process of evaluating the impact of adoption of this ASU on its consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, *Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs* which requires an entity to present debt issuance costs related to a recognized debt liability in the balance sheet as a direct deduction from the carrying amount of the debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this update. This ASU requires retrospective adoption and is effective for annual reporting periods beginning after December 15, 2015. Early adoption is permitted. The University is currently in the process of evaluating the impact of adoption of this ASU on its consolidated financial statements.

NOTE 3 – CONTRIBUTIONS RECEIVABLE, NET

The following is a summary of the University's contributions receivable at June 30:

	Pledges receivable	Estates receivable	Trusts held by others	2015	2014
Less than one year	$ 1,327,000	$ 756,000	$ -	$ 2,083,000	$ 507,000
One to five years	2,409,000	-	-	2,409,000	3,693,000
More than five years	-	-	1,320,000	1,320,000	1,221,000
	3,736,000	756,000	1,320,000	5,812,000	5,421,000
Less unamortized discount	(34,000)	-	(816,000)	(850,000)	(721,000)
	$ 3,702,000	$ 756,000	$ 504,000	$ 4,962,000	$ 4,700,000
Less allowance for uncollectible contributions				(693,000)	(261,000)
Contributions receivable, net				$ 4,269,000	$ 4,439,000

The discount rates used for the years ended June 30, 2015 and 2014 ranged from 0.1% to 0.9%.

NOTE 4 – STUDENT LOANS AND OTHER NOTES RECEIVABLE, NET

Student loans and other notes receivable are primarily federally sponsored student loans with United States government-mandated interest rates and repayment terms subject to significant restrictions as to their transfer and disposition. Student loans are funded through Federal government loan programs or institutional resources. At June 30, student loan receivables and other notes receivable, net, in the accompanying consolidated statement of financial position, consisted of the following:

	2015	2014
Federal government programs	$ 3,257,000	$ 3,316,000
Institutional programs	1,550,000	1,352,000
	4,807,000	4,668,000
Less: Allowance for uncollectible accounts		
Federal programs	(68,000)	(68,000)
Institutional programs	(257,000)	(239,000)
Student loans receivable, net	$ 4,482,000	$ 4,361,000

NOTE 4 – STUDENT LOANS AND OTHER NOTES RECEIVABLE, NET - Continued

The University participates in the revolving Federal Perkins and Nursing Student Loan Programs. The availability of funds for loans under these programs is dependent on reimbursements to the pool from repayments on outstanding loans. Funds advanced by the Federal government are ultimately refundable to the government and are classified as government student loan programs in the accompanying consolidated statement 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. Student loans and other notes receivable also include amounts due from certain faculty and staff members under the University's housing assistance program.

At June 30, the following amounts were past due under the Federal Perkins and Nursing Student Loan Programs:

Time Past Due	2015	2014
1 to 2 Months	$ 54,000	$ 56,000
3 to 6 Months	48,000	28,000
> 6 Months	107,000	127,000
Total	$ 209,000	$ 211,000

NOTE 5 – INVESTMENTS

Investments and assets whose use is limited are summarized as follows:

	June 30, 2015	
	Investments	Assets whose use is limited
Mutual funds:		
Money market funds	$ -	$ 14,145,000
Investment grade bond funds	6,501,000	2,930,000
High yield bond funds	6,396,000	544,000
Domestic equity funds	36,800,000	4,780,000
International equity funds	41,105,000	1,740,000
Commodity funds	3,547,000	-
Other funds	331,000	933,000
Total mutual funds	94,680,000	25,072,000
Certificates of deposit	100,000	711,000
Debt securities	11,413,000	4,107,000
U.S. government obligations	427,000	225,000
Municipal obligations	3,257,000	-
Common and preferred stocks	3,256,000	72,000
Real estate (domestic), net of accumulated depreciation of $4,553,000	16,768,000	-
Hedge funds	8,541,000	-
Private equity	180,000	-
Deferred compensation plan	-	789,000
Other	9,000	-
Beneficial interest in perpetual trusts	-	1,926,000
Total	$ 138,631,000	$ 32,902,000

NOTE 5 – INVESTMENTS - Continued

	June 30, 2014	
	Investments	Assets whose use is limited
Mutual funds:		
Money market funds	$ -	$ 30,462,000
Investment grade bond funds	6,318,000	3,016,000
High yield bond funds	5,967,000	809,000
Domestic equity funds	33,615,000	5,705,000
International equity funds	41,567,000	2,052,000
Commodity funds	4,089,000	-
Other funds	323,000	1,169,000
Total mutual funds	91,879,000	43,213,000
Certificates of deposit	101,000	711,000
Debt securities	9,053,000	4,025,000
U.S. government obligations	175,000	219,000
Municipal obligations	3,223,000	4,560,000
Common and preferred stocks	3,032,000	113,000
Real estate (domestic), net of accumulated depreciation of $3,982,000	13,251,000	-
Hedge funds	8,426,000	-
Deferred compensation plan	-	720,000
Other	9,000	-
Beneficial interest in perpetual trusts	-	1,967,000
Total	$ 129,149,000	$ 55,528,000

Investment expenses are reflected as a reduction of investment income and totaled $1,200,000 and $1,057,000 for the years ended June 30, 2015 and 2014, respectively.

NOTE 6 – FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair Value Determination

The fair value of the University's financial instruments represents management's best estimates of the amounts that would be received to sell those assets in an orderly transaction between market participants at period end. Those fair value measurements maximize the use of observable inputs. However, in situations where there are little, if any, observable inputs, management's own judgments about the assumptions of market participants were used in pricing the assets. Those judgments are developed by management based on the best information available in the circumstances.

Fair Value Hierarchy

ASC 820, *Fair Value Measurements,* describes three levels of inputs that may be used to measure fair value.

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observed for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

NOTE 6 – FAIR VALUES OF FINANCIAL INSTRUMENTS - Continued

The following table presents assets that are measured at fair value on a recurring basis at June 30, 2015:

	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets included in cash and cash equivalents:				
Money market funds	$ 20,760,000	$ 20,760,000	$ -	$ -
Total assets included in cash and cash equivalents	20,760,000	20,760,000	-	-
Assets included in contributions receivable	642,000	-	-	642,000
Assets included in investments:				
Investment grade bond funds	6,501,000	6,501,000	-	-
High yield bond funds	6,396,000	6,396,000	-	-
Domestic equity funds	36,800,000	36,800,000	-	-
International equity funds	41,105,000	41,105,000	-	-
Commodity funds	3,547,000	3,547,000	-	-
Other funds	340,000	340,000	-	-
Certificates of deposit	100,000	-	100,000	-
Debt securities	11,413,000	-	11,413,000	-
U.S. government obligations	427,000	-	427,000	-
Municipal obligations	3,257,000	-	3,257,000	-
Common and preferred stocks	3,256,000	3,256,000	-	-
Hedge funds	8,541,000	-	-	8,541,000
Private equity	180,000	-	-	180,000
Total assets included in investments	121,863,000	97,945,000	15,197,000	8,721,000
Assets included in assets whose use is limited:				
Money market funds	14,145,000	14,145,000	-	-
Investment grade bond funds	2,930,000	2,930,000	-	-
High yield bond funds	544,000	544,000	-	-
Domestic equity funds	4,780,000	4,780,000	-	-
International equity funds	1,740,000	1,740,000	-	-
Other mutual funds	933,000	933,000	-	-
Certificates of deposit	711,000	-	711,000	-
Debt securities	4,107,000	-	4,107,000	-
U.S. government obligations	225,000	-	225,000	-
Municipal obligations	-	-	-	-
Common and preferred stocks	72,000	72,000	-	-
Deferred compensation plan	789,000	-	-	789,000
Beneficial interest in perpetual trusts	1,926,000	-	-	1,926,000
Total assets included in assets whose use is limited	32,902,000	25,144,000	5,043,000	2,715,000
Total assets measured at fair value on a recurring basis	$ 176,167,000	$ 143,849,000	$ 20,240,000	$ 12,078,000

NOTE 6 – FAIR VALUES OF FINANCIAL INSTRUMENTS - Continued

The following table presents assets that are measured at fair value on a recurring basis at June 30, 2014:

	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets included in cash and cash equivalents:				
Money market funds	$ 7,010,000	$ 7,010,000	$ -	$ -
Total assets included in cash and cash equivalents	7,010,000	7,010,000	-	-
Assets included in contributions receivable	511,000	-	-	511,000
Assets included in investments:				
Investment grade bond funds	6,318,000	6,318,000	-	-
High yield bond funds	5,967,000	5,967,000	-	-
Domestic equity funds	33,615,000	33,615,000	-	-
International equity funds	41,567,000	41,567,000	-	-
Commodity funds	4,089,000	4,089,000	-	-
Other funds	332,000	332,000	-	-
Certificates of deposit	101,000	-	101,000	-
Debt securities	9,053,000	-	9,053,000	-
U.S. government obligations	175,000	-	175,000	-
Municipal obligations	3,223,000	-	3,223,000	-
Common and preferred stocks	3,032,000	3,032,000	-	-
Hedge funds	8,426,000	-	8,426,000	-
Total assets included in investments	115,898,000	94,920,000	20,978,000	-
Assets included in assets whose use is limited:				
Money market funds	30,462,000	30,462,000	-	-
Investment grade bond funds	3,016,000	3,016,000	-	-
High yield bond funds	809,000	809,000	-	-
Domestic equity funds	5,705,000	5,705,000	-	-
International equity funds	2,052,000	2,052,000	-	-
Other mutual funds	1,169,000	1,169,000	-	-
Certificates of deposit	711,000	-	711,000	-
Debt securities	4,025,000	-	4,025,000	-
U.S. government obligations	219,000	-	219,000	-
Municipal obligations	4,560,000	-	4,560,000	-
Common and preferred stocks	113,000	113,000	-	-
Deferred compensation plan	720,000	-	-	720,000
Beneficial interest in perpetual trusts	1,967,000	-	-	1,967,000
Total assets included in assets whose use is limited	55,528,000	43,326,000	9,515,000	2,687,000
Total assets measured at fair value on a recurring basis	$ 178,947,000	$ 145,256,000	$ 30,493,000	$ 3,198,000

NOTE 6 – FAIR VALUES OF FINANCIAL INSTRUMENTS - Continued

The following methods and assumptions were used to estimate the fair value for each class of financial instrument measured at fair value:

Contributions receivable

As shown in Note 3, a portion of contributions receivable represents the University's beneficial interest in irrevocable trust agreements held by outside trustees. The University has no control over the investment of these assets and cannot access them until the trusts mature. The reported fair value is calculated by discounting the fair market value of the underlying assets. As the University does not have the ability to redeem its interest, the assets are classified as Level 3.

Money market funds

Investments in money market funds are classified as Level 1, as they can be liquidated in the same day, representing the active and ready market for these assets.

Certificates of deposit

Investments in certificates of deposit are classified as Level 2, as they are not actively traded; however, pricing for similar investments with the same maturities is readily available from various sources.

Common and preferred stocks

Investments in common and preferred stocks are measured at fair value using quoted market prices. They are classified as Level 1, as they are traded in active markets for which closing stock prices are readily available.

Fixed income securities

Investments in debt securities, U.S. government and municipal obligations, are classified as Level 2, as they use significant other observable inputs, particularly dealer market prices for comparable investment as of the valuation date as reflected on account statements issued by investment custodians.

Mutual funds

Investments in mutual funds are classified as Level 1, as they can be liquidated in the same day, representing the active and ready market for these assets.

NOTE 6 – FAIR VALUES OF FINANCIAL INSTRUMENTS – Continued

Hedge funds

Investments in hedge funds are recorded based on valuations provided by the hedge fund managers and are classified as Level 3 as the University is unable to obtain independent substantiation for the valuations. The hedge funds pursue multiple strategies to maximize risk-adjusted returns and achieve low correlation to the equity or debt markets by investing in a diversified group of pooled investment vehicles (commonly referred to as hedge funds). The University has no unfunded commitments to the hedge funds and the entire amount is redeemable at the end of any calendar quarter with a 60-day notice.

Private equity

Investments in private equity are recorded based on valuations provided by investment managers for which the University is unable to obtain independent substantiation. Therefore, these investments are classified as Level 3. This category consists of investments to a fund-of-funds which makes direct investments in companies or securities using various private equity-related disciplines both inside and outside the United States. The fund's investments may take several years to mature. It is not anticipated that proceeds will be available for several years. The University has committed to fund up to $3,500,000 through capital calls. The unfunded commitments as of June 30, 2015 and 2014 were $3,320,000 and $3,500,000, respectively.

Deferred compensation plan

The University maintains a 457(b) deferred compensation plan for certain employees. The employees contribute through payroll withholding into various mutual funds or annuity contracts with Lincoln Financial Group. While the assets are owned by the University, they are held in trust accounts for the exclusive benefit of the employees. The values are provided by statements from the custodians and are classified as Level 3 as the University does not have the ability to redeem its investments in the near term.

Beneficial interest in perpetual trust

The University is the irrevocable beneficiary of certain perpetual charitable trusts held by outside trustees. The terms of the trusts provide that the University is to receive distributions from the trusts annually. The fair value of the beneficial interest in each trust is reported based on the University's share of the income according to the trust agreement. Because the University is unable to redeem its interest, the asset is classified as Level 3.

NOTE 6 – FAIR VALUES OF FINANCIAL INSTRUMENTS – Continued

The following table presents the activity of the University's Level 3 assets for the year ended June 30, 2015:

	Contributions receivable	Beneficial interest in perpetual trusts	Hedge funds	Private equity	Deferred compensation plan	2015	2014
Beginning fair value	$ 511,000	$1,967,000	$ -	$ -	$ 720,000	$ 3,198,000	$2,958,000
Additions	-	-	-	190,000	-	190,000	-
Transfer from Level 2 to Level 3	-	-	8,426,000	-	-	8,426,000	-
Investment return	-	-	115,000	(10,000)	52,500	157,500	89,000
Distributions to University	-	(131,000)	-	-	-	(131,000)	(54,000)
Change from calculation of beneficial interest	131,000	90,000	-	-	-	221,000	185,000
Employee additions	-	-	-	-	16,500	16,500	20,000
Ending fair value	$ 642,000	$1,926,000	$8,541,000	$180,000	$ 789,000	$12,078,000	$3,198,000

NOTE 7 – LAND, BUILDINGS, AND EQUIPMENT, NET

The following is a summary of the University's land, buildings, and equipment at June 30:

	2015	2014
Land, buildings, and improvements	$ 230,148,000	$ 210,937,000
Equipment	53,503,000	48,985,000
Construction in progress	21,833,000	19,149,000
	305,484,000	279,071,000
Less: accumulated depreciation	(121,139,000)	(112,014,000)
Total land, buildings, and equipment, net	$ 184,345,000	$ 167,057,000

Depreciation expense was $10,217,000 and $9,218,000 for the years ended June 30, 2015 and 2014, respectively.

NOTE 8 – LINE OF CREDIT

The University has a $4,000,000 line of credit bearing interest at a rate per annum of one half of one percent less than the Reference Rate. The Reference Rate shall mean the per annum rate announced by the creditor from time to time. At the University's option, advances in increments of at least $100,000 shall bear interest at a per annum rate based on an index selected by the University, which is one and one half percent per annum in excess of the LIBOR rate. As of June 30, 2015 and 2014, there were no outstanding borrowings on this line of credit.

NOTE 9 – BONDS PAYABLE

The following is a summary of the University's bonds payable at June 30:

	2015	2014
7.13% Taxable Refunding Bonds Series 1998 maturing October 1, 2014 secured by $4,560,000 held as deposits with the trustee, and recorded as assets whose use is limited in the consolidated statement of financial position	$ -	$ 4,405,000
5% to 5.875% California Municipal Finance Authority Refunding Revenue Bonds Series 2008A (tax exempt) maturing October 1, 2018 through October 2034, secured by a Deed of Trust with Absolute Assignment of Leases and Rents	94,420,000	94,420,000
7.875% California Municipal Finance Authority Refunding Revenue Bonds Series 2008B (taxable) maturing October 1, 2016, secured by a Deed of Trust with Absolute Assignment of Leases and Rents	1,665,000	2,950,000
4% and 5% California Municipal Finance Authority Revenue Bonds Series 2013 (tax exempt) totaling $13,905,000 maturing serially through October 1, 2030 and Series 2013 term bonds totaling $22,875,000 maturing October 1, 2033, 2038 and 2042, secured by a Deed of Trust with Absolute Assignment of Leases and Rents	36,780,000	36,780,000
	132,865,000	138,555,000
Unamortized bond issuance costs and discounts	(2,059,000)	(2,222,000)
Unamortized bond premiums	3,182,000	3,296,000
Total bonds payable	$ 133,988,000	$ 139,629,000

NOTE 9 – BONDS PAYABLE - Continued

The carrying value of the University's bonds payable of $133,988,000 and $139,629,000 was different than the fair value of $154,890,000 and $161,660,000 on June 30, 2015 and 2014, respectively, which is the present value of debt service cash flows from the bonds.

Sinking fund requirements per the indenture agreements to retire the bonds are summarized as follows for the years ending June 30:

	Series 2008A	Series 2008B	Series 2013	Total
2016	$ -	$ 1,535,000	$ -	$ 1,535,000
2017	2,460,000	130,000	-	2,590,000
2018	2,200,000	-	-	2,200,000
2019	2,470,000	-	790,000	3,260,000
2020	2,770,000	-	830,000	3,600,000
Thereafter	84,520,000	-	35,160,000	119,680,000
	$ 94,420,000	$ 1,665,000	$ 36,780,000	$ 132,865,000

NOTE 10 – COMMITMENTS AND CONTINGENCIES

Lease Commitments

The University has operating leases for certain equipment and facilities. The future minimum lease payments under the operating lease agreements are as follows for the years ending June 30:

2016	$ 856,000
2017	346,000
2018	20,000
2019	-
Total	$ 1,222,000

Rental expense for equipment and facilities operating leases totaled $1,217,000 and $1,361,000 for the years ended June 30, 2015 and 2014, respectively.

Contingencies

The University is subject to certain loss contingencies, such as litigation, arising in the normal conduct of its educational activities. In the opinion of University management, the liability, if any, for such contingencies will not have a material effect on the University's consolidated financial position.

NOTE 11 – EMPLOYEE RETIREMENT PLANS

Retirement benefits are provided for employees through the Teachers Insurance and Annuity Association, the College Retirement Equities Fund, the Lincoln National Life Insurance Company, the Legend Group, and the Fidelity Investments Institutional Services funds. The University and plan participants make contributions to purchase annuities equivalent to the retirement benefits earned. Vesting provisions are full and immediate under these plans. Employer contributions to all plans amounted to $3,915,000 and $3,688,000 for the years ended June 30, 2015 and 2014, respectively.

NOTE 12 – RELATED-PARTY TRANSACTIONS

The University has adopted a housing assistance program to assist certain faculty and staff members with their housing costs. Loans are made to these individuals at varying rates and terms, and are collateralized by a deed of trust in the properties purchased. Amounts outstanding under this program at June 30, 2015 and 2014 were $1,923,000 and $1,735,000, respectively, and are included in student loans and other notes receivable on the consolidated statement of financial position. None of these loans are past due as of June 30, 2015.

During 2015 and 2014, the University made equipment purchases totaling $148,000 and $85,000, respectively, from a company owned in part by a member of the University's management, which are included in land, buildings, and equipment on the consolidated statement of financial position.

NOTE 13 – ENDOWMENT

The University classifies the portion of donor-restricted endowment funds that is not classified as permanently restricted net assets as temporarily restricted net assets until appropriated for expenditure.

The University's endowment consists of approximately 150 funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

NOTE 13 – ENDOWMENT - Continued

Interpretation of Relevant Law

The Board of Trustees of the University has interpreted the *Uniform Prudent Management of Institutional Funds Act* (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of 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 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 endowment fund;
(2) The purposes of the University and the endowment fund;
(3) General economic conditions;
(4) The possible effect of inflation or deflation;
(5) The expected total return from income and the appreciation of investments;
(6) Other resources of the University; and
(7) The investment policy of the University.

Endowment net asset composition by type of fund consists of the following as of June 30:

	2015			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$ -	$ 9,559,000	$ 19,576,000	$ 29,135,000
Board-designated endowment funds	82,047,000	-	-	82,047,000
Total	$82,047,000	$ 9,559,000	$ 19,576,000	$ 111,182,000

	2014			
	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$ -	$ 10,365,000	$ 18,017,000	$ 28,382,000
Board-designated endowment funds	77,051,000	-	-	77,051,000
Total	$77,051,000	$ 10,365,000	$ 18,017,000	$ 105,433,000

NOTE 13 – ENDOWMENT - Continued

Changes in endowment net assets for the year ended June 30, 2015 are as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of fiscal year	$ 77,051,000	$ 10,365,000	$ 18,017,000	$ 105,433,000
Investment return:				
Investment income	1,423,000	596,000	-	2,019,000
Net appreciation (realized and unrealized)	(1,460,000)	(565,000)	(41,000)	(2,066,000)
Total investment return	(37,000)	31,000	(41,000)	(47,000)
Contributions to endowment	1,759,000	344,000	1,600,000	3,703,000
Appropriation of endowment assets for expenditure	(2,070,000)	(994,000)	-	(3,064,000)
Contributions released from donor restrictions	187,000	(187,000)	-	-
Transfer to create board designated endowment	5,157,000	-	-	5,157,000
Endowment net assets, June 30, 2015	$ 82,047,000	$ 9,559,000	$ 19,576,000	$ 111,182,000

Changes in endowment net assets for the year ended June 30, 2014 are as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of fiscal year	$ 63,782,000	$ 7,972,000	$ 16,070,000	$ 87,824,000
Investment return:				
Investment income	1,912,000	580,000	-	2,492,000
Net appreciation (realized and unrealized)	6,389,000	2,546,000	81,000	9,016,000
Total investment return	8,301,000	3,126,000	81,000	11,508,000
Contributions to endowment	335,000	110,000	1,866,000	2,311,000
Appropriation of endowment assets for expenditure	(1,734,000)	(816,000)	-	(2,550,000)
Contributions released from donor restrictions	28,000	(27,000)	-	1,000
Transfer to create board designated endowment	6,339,000	-	-	6,339,000
Endowment net assets, June 30, 2014	$ 77,051,000	$ 10,365,000	$ 18,017,000	$ 105,433,000

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. There were no deficiencies of this nature reported in unrestricted net assets as of June 30, 2015 and 2014.

NOTE 13 – ENDOWMENT - Continued

Spending Policy

The University has adopted a Board of Trustees approved spending rule providing an average appropriation from endowment, which does not exceed 5% of a 36-month moving average of the endowment's fair value. Spending comprises investment income, including but not limited to realized and unrealized appreciation, dividends, interest, and rents. Consistent with the University's objective of preserving the purchasing power of endowment income, income in excess of the appropriation is reinvested.

Investment Policy, Objectives, and Risk Tolerance

The University's investment policy includes two goals for its endowment: (1) to maximize the long-term return while managing but not eliminating short-term market risk; and (2) to provide spendable endowment income, which is reasonably stable and predictable from year to year, while preserving the purchasing power of endowment income and protecting the real value of endowment principal. The University has adopted an investment plan designed to manage market risk by minimizing portfolio volatility through a diversified strategy that mitigates the potential impact of any one geographic region, sector, or style. The portfolio includes exposure to multiple asset classes and styles (i.e., fixed income, public equity, and real estate). The desired annual return objective is 5% above inflation while experiencing lower volatility than a composite allocation weighted index portfolio.

NOTE 14 – FUNDRAISING EXPENSES

During the years ended June 30, 2015 and 2014, the University incurred fundraising expenses of approximately \$3,618,000 and \$2,836,000, respectively, exclusive of expenses for alumni relations and public relations.

NOTE 15 – SUBSEQUENT EVENTS

The University has evaluated subsequent events through November 23, 2015. The University is not aware of any subsequent events which would require recognition or disclosure in the consolidated financial statements.

The Federal Perkins Loan Program expired on September 30, 2015, and guidance for a wind-down of the program has been issued to institutions participating in the program. This expiration does not impact current loans outstanding and a grandfathering provision exists to extend additional disbursements to students for up to five years if the student has received a disbursement on or prior to July 1, 2015.

SUPPLEMENTAL SCHEDULES

Biola University
And wholly owned subsidiary

CONSOLIDATING SCHEDULE – STATEMENT OF FINANCIAL POSITION

June 30, 2015

	University	Arrington Square	Eliminations	Total
Assets				
Cash and cash equivalents	$ 56,511,000	$ -	$ -	$ 56,511,000
Accounts receivable, net of allowance of $391,000	2,073,000	-	-	2,073,000
Contributions receivable, net of allowance of $693,000	4,269,000	-	-	4,269,000
Prepaid expenses and other assets	1,667,000	-	-	1,667,000
Student loans and other notes receivable, net of allowance of $325,000	6,405,000	-	-	6,405,000
Investments	138,631,000	-	-	138,631,000
Assets whose use is limited	32,902,000	-	-	32,902,000
Land, buildings, and equipment, net	184,345,000	-	-	184,345,000
Total Assets	426,803,000	-	-	426,803,000
Liabilities and Net Assets				
Liabilities				
Accounts payable and accrued expenses	17,650,000	-	-	17,650,000
Deposits and deferred revenue	11,197,000	-	-	11,197,000
Amounts held on behalf of others	1,138,000	-	-	1,138,000
Trust and annuity obligations	5,806,000	-	-	5,806,000
Government student loan programs	3,095,000	-	-	3,095,000
Bonds payable	133,988,000	-	-	133,988,000
Asset retirement obligation	1,538,000	-	-	1,538,000
Total Liabilities	174,412,000	-	-	174,412,000
Net Assets:				
Unrestricted	187,134,000	-	-	187,134,000
Temporarily restricted	43,698,000	-	-	43,698,000
Permanently restricted	21,559,000	-	-	21,559,000
Total Net Assets	252,391,000	-	-	252,391,000
Total Liabilities and Net Assets	$ 426,803,000	$ -	$ -	$ 426,803,000

Biola University
And wholly owned subsidiary

CONSOLIDATING SCHEDULE – STATEMENT OF ACTIVITIES

June 30, 2015

	University	Arrington Square	Eliminations	Total
Operating				
Revenue and other support:				
Tuition and fees	$ 157,563,000	$ -	$ -	$ 157,563,000
Less: financial assistance	(40,121,000)	-	-	(40,121,000)
Net tuition and fees	117,442,000	-	-	117,442,000
Sales and services of auxiliary enterprises	26,136,000	-	-	26,136,000
Contributions	8,481,000	-	-	8,481,000
Endowment distributions to support operations	3,064,000	-	-	3,064,000
Public and student service fees	3,854,000	-	-	3,854,000
Federal student aid grants	859,000	-	-	859,000
Other	1,648,000	219,000	(172,000)	1,695,000
Total operating revenue	161,484,000	219,000	(172,000)	161,531,000
Total operating revenue and other support	161,484,000	219,000	(172,000)	161,531,000
Expenses:				
Program expenses:				
Instruction:				
School of Arts and Sciences	27,515,000	133,000	(219,000)	27,429,000
Talbot School of Theology	13,470,000	-	-	13,470,000
Rosemead School of Psychology	4,719,000	-	-	4,719,000
Cook School of Intercultural Studies	3,244,000	-	-	3,244,000
School of Education	2,844,000	-	-	2,844,000
Crowell School of Business	2,411,000	-	-	2,411,000
Interterm	556,000	-	-	556,000
Summer school	607,000	-	-	607,000
Academic support	12,772,000	-	-	12,772,000
Research	2,632,000	-	-	2,632,000
Student services	19,218,000	-	-	19,218,000
Public service	3,884,000	-	-	3,884,000
Auxiliary enterprises	29,121,000	-	-	29,121,000
Total program expenses	122,993,000	133,000	(219,000)	122,907,000
General administrative and institutional support	29,852,000	1,000	-	29,853,000
Total expenses	152,845,000	134,000	(219,000)	152,760,000
Change in net assets from operations	8,639,000	85,000	47,000	8,771,000
Other changes				
Contributions	23,360,000	-	-	23,360,000
Investment income, net	2,571,000	-	(132,000)	2,439,000
Realized and unrealize gain on investments, net	(2,486,000)	-	-	(2,486,000)
Dissolution of Arrington Square	-	(5,588,000)	5,588,000	-
Endowment distributions to support operations	(3,064,000)	-	-	(3,064,000)
Change in value of split-interest agreements	130,000	-	-	130,000
Provision for and amortization of asset retirement obligation	(66,000)	-	-	(66,000)
Total other changes in net assets	20,445,000	(5,588,000)	5,456,000	20,313,000
Change in net assets	29,084,000	(5,503,000)	5,503,000	29,084,000
Net assets at beginning of year	223,307,000	5,503,000	(5,503,000)	223,307,000
Net assets at end of year	$ 252,391,000	$ -	$ -	$ 252,391,000