



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

California Lutheran University and Affiliate

May 31, 2015 and 2014

CONTENTS

	PAGE
REPORT OF INDEPENDENT AUDITORS	1-2
CONSOLIDATED FINANCIAL STATEMENTS	
Consolidated statements of financial position	3
Consolidated statements of activities	4
Consolidated statements of cash flows	5
Notes to consolidated financial statements	6-29
SUPPLEMENTARY INFORMATION	
Consolidating statement of financial position	30
Consolidating statement of activities	31

REPORT OF INDEPENDENT AUDITORS

The Board of Regents
California Lutheran University

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of California Lutheran University and Affiliate, which comprise the consolidated statement of financial position as of May 31, 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 obtained is sufficient and appropriate to provide a basis for our audit opinion.

MOSS ADAMS LLP***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of California Lutheran University and Affiliate as of May 31, 2015, and the change in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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

We have previously audited the California Lutheran University and Affiliate's May 31, 2014 consolidated financial statements, and our report dated September 16, 2014, expressed an unmodified audit opinion on those audited consolidated financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended May 31, 2014, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Supplementary Information

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



Los Angeles, California
September 14, 2015

**CALIFORNIA LUTHERAN UNIVERSITY AND AFFILIATE
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF MAY 31, 2015 AND 2014**

ASSETS	2015	2014
Cash and cash equivalents	\$ 52,592,843	\$ 48,184,334
Receivables		
Student accounts, net	1,763,326	1,637,839
Grants	328,247	230,388
Contributions	7,485,342	7,180,884
Other	1,676,917	1,556,374
	<u>11,253,832</u>	<u>10,605,485</u>
Student loans receivable, net	1,621,171	1,647,347
Prepaid expenses, inventories and deposits	1,705,167	1,796,556
Investments		
Endowment	92,938,118	86,235,853
Deferred gifts held by University	3,057,137	2,998,072
California Lutheran Educational Foundation investments	5,772,940	6,129,479
Other	310,110	972,004
	<u>102,078,305</u>	<u>96,335,408</u>
Funds held in trust by others	1,330,393	1,127,054
Deposits with trustee - reserved funds	3,934,040	6,932,024
Debt acquisition costs	2,011,245	1,894,135
Construction in progress	2,391,100	13,524,373
Property, plant, and equipment, net	136,191,904	126,600,397
Other intangible assets	475,000	475,000
	<u>475,000</u>	<u>475,000</u>
TOTAL ASSETS	<u>\$ 315,585,000</u>	<u>\$ 309,122,113</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 2,914,079	\$ 2,714,049
Accrued liabilities	8,063,148	9,276,885
Student housing deposits	767,708	720,378
Deferred revenue	1,483,972	1,804,449
Interest rate exchange agreement liability	70,973	111,605
Annuities payable	4,645,571	4,671,074
Deposits held in trust for others	2,093,092	2,020,183
Government grants refundable	1,599,897	1,579,490
Long-term debt	68,603,678	70,887,514
	<u>68,603,678</u>	<u>70,887,514</u>
TOTAL LIABILITIES	<u>90,242,118</u>	<u>93,785,627</u>
NET ASSETS		
Unrestricted	136,088,586	133,662,405
Temporarily restricted	34,188,781	30,741,084
Permanently restricted	55,065,515	50,932,997
	<u>55,065,515</u>	<u>50,932,997</u>
TOTAL NET ASSETS	<u>225,342,882</u>	<u>215,336,486</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 315,585,000</u>	<u>\$ 309,122,113</u>

CALIFORNIA LUTHERAN UNIVERSITY AND AFFILIATE
CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED MAY 31, 2015 WITH SUMMARIZED TOTALS FOR 2014

	2015			2014	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
OPERATING					
Revenues, gains and other support					
Tuition and fees	\$ 118,683,225	\$ -	\$ -	\$ 118,683,225	\$ 117,987,734
Less: Scholarships and grants	(40,942,024)	-	-	(40,942,024)	(39,001,331)
Net tuition and fees	77,741,201	-	-	77,741,201	78,986,403
Government and grants	2,341,889	-	-	2,341,889	2,196,088
Contributions	3,356,606	1,454,011	-	4,810,617	3,879,947
Short-term investment gain	49,150	-	-	49,150	47,485
Long-term investment income and gains allocated for operations	762,470	2,390,720	-	3,153,190	2,539,620
Interest and dividends	360,003	-	-	360,003	129,815
Sales and services of educational activities	1,112,770	-	-	1,112,770	941,317
Other sources	2,983,345	-	-	2,983,345	2,739,455
Sales and services of auxiliary enterprises	16,988,108	-	-	16,988,108	16,422,770
	105,695,542	3,844,731	-	109,540,273	107,882,900
Net assets released from restrictions	3,469,957	(3,469,957)	-	-	-
Reclassifications and re-designations	(618,785)	546,163	72,622	-	-
TOTAL REVENUES, GAINS AND OTHER SUPPORT	108,546,714	920,937	72,622	109,540,273	107,882,900
Expenses					
Program Expenses					
Instruction	38,235,343	-	-	38,235,343	35,365,289
Public service	4,897,790	-	-	4,897,790	4,372,595
Academic support	6,770,513	-	-	6,770,513	6,870,618
Student services	20,657,954	-	-	20,657,954	19,174,455
Auxiliary enterprises	18,971,052	-	-	18,971,052	17,619,513
Support Expenses					
Institutional support	17,292,783	-	-	17,292,783	15,400,191
Allocable expenses					
Operation and maintenance of plant	9,138,097	-	-	9,138,097	8,356,407
Depreciation	7,281,597	-	-	7,281,597	6,654,441
Interest	3,769,518	-	-	3,769,518	3,293,799
Less: Allocated expenses	(20,189,212)	-	-	(20,189,212)	(18,304,647)
TOTAL OPERATING EXPENSES	106,825,435	-	-	106,825,435	98,802,661
Change in net assets from operating activities	1,721,279	920,937	72,622	2,714,838	9,080,239
NON-OPERATING					
Endowment income	887,384	2,578,087	-	3,465,471	6,575,471
Less: Long-term investment income and gains allocated for operations	(762,470)	(2,390,720)	-	(3,153,190)	(2,539,620)
Investment return distributed	124,914	187,367	-	312,281	4,035,851
Net gains (losses) on other investments	(1,465)	4,966	-	3,501	(894)
Net gain (loss) on CEFA bond reserve	248,202	-	-	248,202	(388,572)
Unrealized gain on interest rate exchange agreement	40,632	-	-	40,632	56,048
Deferred giving - gifts	5,318	178,055	3,825,687	4,009,060	5,119,516
Capital giving - gifts	-	2,782,876	-	2,782,876	6,293,744
Gains (losses) on funds held in trust by others	1,859	(1,521)	216,100	216,438	357,341
Adjustment to actuarial liability for annuities payable	(27,125)	(309,456)	18,109	(318,472)	190,473
Loss on disposal of property, plant and equipment	(2,960)	-	-	(2,960)	(75,936)
Acquisition - inherent contribution	-	-	-	-	19,223,452
Net assets released from restrictions - nonoperating	315,527	(315,527)	-	-	-
Change in net assets from nonoperating activities	704,902	2,526,760	4,059,896	7,291,558	34,811,023
CHANGE IN NET ASSETS	2,426,181	3,447,697	4,132,518	10,006,396	43,891,262
NET ASSETS, beginning of year	133,662,405	30,741,084	50,932,997	215,336,486	171,445,224
NET ASSETS, end of year	<u>\$ 136,088,586</u>	<u>\$ 34,188,781</u>	<u>\$ 55,065,515</u>	<u>\$ 225,342,882</u>	<u>\$ 215,336,486</u>

**CALIFORNIA LUTHERAN UNIVERSITY AND AFFILIATE
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED MAY 31, 2015 AND 2014**

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 10,006,396	\$ 43,891,262
Adjustments to reconcile change in net assets to net cash provided from operating activities:		
Depreciation, amortization, and accretion	7,755,860	6,743,205
Gain on investments, net	(3,468,972)	(6,574,576)
Unrealized (gain) loss on CEFA bond proceeds	(248,202)	388,572
Change in allowance for doubtful accounts	15,219	(3,602)
Change in interest rate exchange agreement liability	(40,632)	(56,048)
Actuarial adjustment of annuities payable	318,472	(190,473)
Loss on disposal of assets	2,960	75,936
Gain on funds held in trust by others	(203,339)	(357,341)
Acquisition-inherent contribution	-	(19,223,452)
Contributions restricted for plant, loans, and long-term investment	(6,791,935)	(11,413,259)
Changes in current assets and liabilities:		
Student accounts receivable	(140,705)	216,134
Grants receivable	(97,859)	(41,650)
Contributions receivable	(304,458)	(3,360,530)
Other receivables	(120,544)	(232,354)
Prepaid expenses, inventories and deposits	91,389	(668,227)
Accounts payable	136,123	994,856
Accrued liabilities	(1,213,737)	1,515,965
Student housing deposits	47,330	549,332
Deferred revenue	(320,477)	(8,580)
Deposits held in trust for others	72,910	172,552
	5,495,799	12,417,722
NET CASH FLOWS FROM OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(51,362,437)	(36,952,741)
Sales of investments	49,246,053	30,776,838
Cash acquired with merger with Pacific Lutheran Theological Seminary	-	904,759
Deposits from trustee accounts	(3,453,098)	(149,841)
Interest earned on deposits with trustee	(119,078)	(164,915)
Purchases of property, plant, and equipment, and CIP	(5,678,885)	(12,309,478)
Disbursements of loans to students	(250,000)	(351,000)
Repayments of loans from students	262,039	207,740
	(11,355,406)	(18,038,638)
NET CASH (USED IN) FROM INVESTING ACTIVITIES		
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long term debt	36,823,363	2,571,456
Payments of principal on indebtedness	(32,288,836)	(1,698,952)
Increase in debt acquisition costs	(591,373)	-
Increase in refundable governmental grants, net	20,407	10,203
Loan receivable cancellations and write-offs	14,137	26,083
Payments to annuitants	(666,816)	(755,212)
Increase in annuities payable from new gifts	165,299	4,259
Contributions received restricted for plant, loans and long-term investment	6,791,935	11,413,259
	10,268,116	11,571,096
NET CASH FROM FINANCING ACTIVITIES		
NET INCREASE IN CASH AND CASH EQUIVALENTS	4,408,509	5,950,180
CASH AND CASH EQUIVALANTS, beginning of year	48,184,334	42,234,154
CASH AND CASH EQUIVALENTS, end of year	\$ 52,592,843	\$ 48,184,334

See accompanying notes.

CALIFORNIA LUTHERAN UNIVERSITY AND AFFILIATE

NOTES TO FINANCIAL STATEMENTS

Note 1 - Organization

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

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

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

On January 1, 2014, Cal Lutheran merged with Pacific Lutheran Theological Seminary ("PLTS") with Cal Lutheran as the surviving entity. There were no noncash contributions received or transferred in relation to the merger, other than the inherent contribution noted below. The merger supports the Cal Lutheran vision of expanding its geographical footprint in California with an institution having a complementary mission and contributes to the growth of Cal Lutheran graduate programs. The following table summarizes the value of the assets acquired and liabilities assumed:

Cash	\$	904,759
Current assets		114,955
Investments		11,905,271
Property, plant and equipment, net		7,886,683
Less: Current liabilities		(280,499)
Less: Long term liabilities		<u>(1,307,717)</u>
Inherent contribution	\$	<u><u>19,223,452</u></u>

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

CALIFORNIA LUTHERAN UNIVERSITY AND AFFILIATE NOTES TO FINANCIAL STATEMENTS

Note 2 – Summary of Significant Accounting Policies

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

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

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

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

The 2015 consolidated statement of activities is presented with 2014 summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with Generally Accepted Accounting Principles (“GAAP”). Accordingly, such information should be read in conjunction with the University’s consolidated financial statements for the year ended May 31, 2014, from which the summarized information was derived.

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

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

Student loans receivable – The University issues uncollateralized loans to students based on financial need. Student loans are funded through Federal government loan programs or institutional resources. Student loans receivable are carried at the amount of unpaid principal less an estimate for doubtful accounts. Allowances for doubtful accounts are established based on prior collection experience and current economic factors which, in management’s judgment, could influence the ability of loan recipients to repay the amounts per the loan terms.

CALIFORNIA LUTHERAN UNIVERSITY AND AFFILIATE

NOTES TO FINANCIAL STATEMENTS

Note 2 – Summary of Significant Accounting Policies (continued)

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

The University adopted the May 2015 accounting standards update related to Topic 820 – Fair Value Measurement promulgated by the Financial Accounting Standards Board. This update removes the requirement to categorize investments measured using the net asset value per share/unit practical expedient within the fair value hierarchy. This update has been applied retrospectively and prior year disclosures have been revised accordingly.

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

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

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

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

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

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

CALIFORNIA LUTHERAN UNIVERSITY AND AFFILIATE NOTES TO FINANCIAL STATEMENTS

Note 2 – Summary of Significant Accounting Policies (continued)

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

Debt acquisition costs – Costs of bond issuance are deferred and amortized on a straight-line basis over the term of the related indebtedness. Amortization of approximately \$95,000 was recorded for the year ended May 31, 2015 and \$89,000 for the year ended May 31, 2014.

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

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

Impairment of long-lived assets – The University reviews long-lived assets, including property and equipment and intangibles, for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss would be recognized when the estimated future cash flows from the use of the asset are less than the carrying amount of that asset. To date, there have been no such losses.

Asset retirement obligations – Asset retirement obligations are estimated costs and obligations associated with the retirement of long-lived assets. These liabilities were initially recorded at fair value and the related asset retirement costs were recorded as decreases in unrestricted net assets. Asset retirement costs are subsequently accreted over the useful lives of the related assets. The asset retirement obligation of \$649,742 and \$791,607 at May 31, 2015 and 2014, respectively, is included in accrued liabilities on the consolidated statements of financial position. The asset retirement obligation was reduced in 2015 and 2014 due to remediation of buildings on campus. Therefore, there was no accretion expense for the years ending May 31, 2015 and 2014.

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

CALIFORNIA LUTHERAN UNIVERSITY AND AFFILIATE

NOTES TO FINANCIAL STATEMENTS

Note 2 – Summary of Significant Accounting Policies (continued)

Government grants refundable – Funds provided by the United States Government under the Federal Perkins Loan Program are loaned to qualified students and may be re-loaned after collections. These funds are ultimately refundable to the government and are included as liabilities in the consolidated statements of financial position. Revenues from other government grants are recognized as they are earned in accordance with the agreement. Any funding received before it is earned is recorded as a refundable advance. Expenses incurred before cash is received are recorded as receivables.

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

Revenue recognition – Revenues from sources other than contributions are generally reported as increases in unrestricted net assets. Expenses are reported as decreases in unrestricted net assets. Income earned on permanently restricted donor funds is initially classified as temporarily restricted net assets and is reclassified as unrestricted net assets when expenses are incurred for their intended purpose.

Contributions, including unconditional promises to give, are recognized as revenues in the period received and are reported as increases in the appropriate categories of net assets in accordance with donor restrictions. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restriction between the applicable classes of net assets. Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues of the temporarily restricted net asset class, and a release to unrestricted net assets is made to reflect the expiration of such restrictions. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. The contribution received is discounted for an allowance for bad debt using the percentage of pledges written off to total pledges recorded for an average of twelve years of 2.74%. In addition, the present value of cash flows is discounted by 5% per annum to account for the time value of receipts.

Contributions of property and equipment without donor stipulations concerning the use of such long-lived assets are reported as unrestricted revenues. Contributions of cash or other assets to be used to acquire property and equipment are reported as temporarily restricted revenues; the restrictions are considered to be released at the time such long-lived assets are placed in service.

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

CALIFORNIA LUTHERAN UNIVERSITY AND AFFILIATE NOTES TO FINANCIAL STATEMENTS

Note 2 – Summary of Significant Accounting Policies (continued)

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

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

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

Retirement plans – The University has certain contributory retirement plans for academic and nonacademic personnel. Contributions for employees are determined on a percentage of annual compensation. The cost of the retirement plans is paid currently and approximated \$3,712,000 and \$3,390,000 for the years ended May 31, 2015 and 2014, respectively.

Fundraising and advertising expenses – Fundraising expenses approximated \$2,893,000 and \$2,763,000 for the years ended May 31, 2015 and 2014, respectively. Advertising costs approximated \$942,000 and \$860,000 for the years ended May 31, 2015 and 2014, respectively, and are expensed as incurred.

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

Use of estimates – The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Income tax status – The Internal Revenue Service has determined that the University and Foundation are exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code as non-profit organizations. It is also exempt from state income taxes. However, any unrelated business income may be subject to taxation.

The University follows the accounting standards for contingencies in evaluating uncertain tax positions. This guidance prescribes recognition threshold principles for the consolidated financial statements recognition of tax positions taken or expected to be taken on a tax return that are not certain to be realized. No liability has been recognized by the University for uncertain tax positions as of May 31, 2015. The University's tax returns are subject to review and examination by federal and state authorities. The University is no longer subject to income tax examinations by taxing authorities for the years before May 31, 2012 for its federal filings and for years before May 31, 2011 for its state filings.

CALIFORNIA LUTHERAN UNIVERSITY AND AFFILIATE

NOTES TO FINANCIAL STATEMENTS

Note 2 – Summary of Significant Accounting Policies (continued)

Reclassifications – Certain amounts appearing in the 2014 consolidated financial statements have been reclassified to conform to the 2015 presentation. The reclassifications have no effect on reported amounts of total net assets or change in total net assets. Reclassifications of net assets from unrestricted to temporarily and permanently restricted net assets occurred to show donor re-designations.

Note 3 – Other Concentrations of Credit Risk

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

Student notes and receivables and other receivables are due from a variety of sources concentrated primarily in the western United States.

In addition, the University's students receive a substantial amount of support from state and federal student financial assistance programs which are subject to audit by governmental agencies. A significant reduction in the level of this support, if this were to occur, could have an adverse effect on the University's programs and activities. Contributions receivable as of May 31, 2015 are principally due from two major contributors (Note 4).

Note 4 – Contributions Receivable

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

	<u>2015</u>	<u>2014</u>
Temporarily restricted - plant projects	\$ 9,311,182	\$ 9,352,324
Less: Present value discount	<u>(1,825,840)</u>	<u>(2,171,440)</u>
Contributions receivable, net	<u>\$ 7,485,342</u>	<u>\$ 7,180,884</u>
Amounts due in:		
Less than one year	\$ 1,553,117	
One to five years	3,658,263	
More than five years	<u>2,273,962</u>	
	<u>\$ 7,485,342</u>	

Gross unconditional promises to give have been reduced by an allowance for unfulfilled pledges of \$285,701 and \$287,687 at May 31, 2015 and 2014, respectively. An interest rate of 5% was used at May 31, 2015 and 2014 to discount net unconditional promises to give.

CALIFORNIA LUTHERAN UNIVERSITY AND AFFILIATE
NOTES TO FINANCIAL STATEMENTS

Note 4 – Contributions Receivable (continued)

Approximately \$4,700,000 and \$6,300,000 of the contributions receivable at May 31, 2015 and 2014, respectively, are due from members of the governing board of the University.

Note 5 – Credit Quality of Student Loans Receivable

At May 31, 2015 and 2014, student loans represented 0.51% and 0.53% of total assets, respectively.

Student loans consist of the following at May 31:

	2015	2014
Federal government programs	\$ 1,701,057	\$ 1,727,233
Institutional programs	5,114	5,114
	1,706,171	1,732,347
Less: Allowance for doubtful accounts	(85,000)	(85,000)
Student loans receivable, net	\$ 1,621,171	\$ 1,647,347

Funds advanced by the Federal government of approximately \$1,700,000 and \$1,600,000 at May 31, 2015 and 2014, respectively, are ultimately refundable to the government and are classified as liabilities in the consolidated statements of financial position.

After a student is no longer enrolled in an institution of higher education and after a grace period, interest is charged on student loans receivable and is recognized as it is charged. Student loans receivable through the loan programs are considered to be past due if a payment is not made within 30 days of the payment due date, at which time, late charges are charged and recognized. The Federal Perkins Loan Program receivables may be assigned to the U.S. Department of Education. Students may be granted a deferment, forbearance, or cancellation of their student loan receivable based on eligibility requirements defined by the U.S. Department of Education.

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

May 31,	1-30 days	31-60 days	61-90 days	91+ days	Total
2015	\$ 45,568	\$ 63,687	\$ 20,911	\$ 86,444	\$ 216,610
2014	\$ 12,962	\$ 36,773	\$ 3,424	\$ 105,785	\$ 158,944

CALIFORNIA LUTHERAN UNIVERSITY AND AFFILIATE

NOTES TO FINANCIAL STATEMENTS

Note 6 – Fair Value Measurements

ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels are defined as follows:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

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

CALIFORNIA LUTHERAN UNIVERSITY AND AFFILIATE
NOTES TO FINANCIAL STATEMENTS

Note 6 – Fair Value Measurements (continued)

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

	2015			
	Total	Level 1	Level 2	Level 3
ASSETS				
Deposits with trustee				
Cash and short term investments	\$ 416,952	\$ 416,952	\$ -	\$ -
Government bonds	3,517,082	3,517,082	-	-
Funds held in trust by others - beneficial interest	1,330,393	-	-	1,330,393
Total funds held by others	5,264,427	3,934,034	-	1,330,393
Investments				
Cash equivalents and short term investments	9,365,505	9,365,505	-	-
Equity securities funds - U.S.	5,286,365	5,286,365	-	-
Equity securities funds - U.S. (measured at net asset value)	8,934,073	-	-	-
Equity securities funds - Non-U.S.	10,561,352	10,561,352	-	-
Equity securities funds - Non-U.S. (measured at net asset value)	16,802,112	-	-	-
Total equity securities	41,583,902	15,847,717	-	-
Comingled funds - U.S.	2,313,202	2,313,202	-	-
Comingled funds - U.S. (measured at net asset value)	30,576,757	-	-	-
Comingled funds - Non-U.S.	2,685,758	2,685,758	-	-
Corporate bonds	5,143,938	5,143,938	-	-
Government bonds	1,643,764	1,643,764	-	-
Total fixed income	42,363,419	11,786,662	-	-
Commodities and other investments	192,551	192,551	-	-
Commodities and other investments (measured at net asset value)	4,270,702	-	-	-
Hedge funds (measured at net asset value)	8,972	-	-	-
Partnerships (measured at net asset value)				
Private equity	3,085,101	-	-	-
Venture capital	1,118,385	-	-	-
Real estate	89,768	-	-	-
Total partnerships	4,293,254	-	-	-
Total investments	102,078,305	37,192,435	-	-
TOTAL ASSETS	\$ 107,342,732	\$ 41,126,469	\$ -	\$ 1,330,393
LIABILITIES				
Interest rate exchange agreement	\$ 70,973	\$ -	\$ 70,973	\$ -
Deposits held in trust for others	458,621	458,621	-	-
TOTAL LIABILITIES	\$ 529,594	\$ 458,621	\$ 70,973	\$ -

CALIFORNIA LUTHERAN UNIVERSITY AND AFFILIATE

NOTES TO FINANCIAL STATEMENTS

Note 6 – Fair Value Measurements (continued)

The following table summarizes financial instruments measured at fair value on a recurring basis by classification within the fair value hierarchy as of May 31, 2014:

	2014			
	Total	Level 1	Level 2	Level 3
ASSETS				
Deposits with trustee				
Cash and short term investments	\$ 938,708	\$ 938,708	\$ -	\$ -
Government bonds	5,993,316	5,993,316	-	-
Funds held in trust by others - beneficial interest	1,127,054	-	-	1,127,054
Total funds held by others	8,059,078	6,932,024	-	1,127,054
Investments				
Cash equivalents and short term investments	6,057,348	6,057,348	-	-
Equity securities funds - U.S.	2,958,511	2,958,511	-	-
Equity securities funds - U.S. (measured at net asset value)	13,988,404	-	-	-
Equity securities funds - Non-U.S.	8,084,380	8,084,380	-	-
Equity securities funds - Non-U.S. (measured at net asset value)	15,241,367	-	-	-
Total equity securities	40,272,662	11,042,891	-	-
Comingled funds - U.S.	2,537,739	2,537,739	-	-
Comingled funds - U.S. (measured at net asset value)	18,970,310	-	-	-
Comingled funds - Non-U.S.	12,908,083	12,908,083	-	-
Corporate bonds	4,165,976	4,165,976	-	-
Government bonds	2,085,498	2,085,498	-	-
Total fixed income	40,667,606	21,697,296	-	-
Commodities and other investments	207,052	207,052	-	-
Commodities and other investments (measured at net asset value)	4,550,819	-	-	-
Hedge funds (measured at net asset value)	13,310	-	-	-
Partnerships (measured at net asset value)				
Private equity	3,242,456	-	-	-
Venture capital	1,042,499	-	-	-
Real estate	281,656	-	-	-
Total partnerships	4,566,611	-	-	-
Total investments	96,335,408	39,004,587	-	-
TOTAL ASSETS	\$ 104,394,486	\$ 45,936,611	\$ -	\$ 1,127,054
LIABILITIES				
Interest rate exchange agreement	\$ 111,605	\$ -	\$ 111,605	\$ -
Deposits held in trust for others	442,408	442,408	-	-
TOTAL LIABILITIES	\$ 554,013	\$ 442,408	\$ 111,605	\$ -

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

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include highly liquid corporate bonds funds, government bonds fund, and U.S. equity securities funds, non-U.S. equity securities funds, U.S. comingled funds, non-U.S. comingled funds, and commodities and other investments, other than those measured at net asset value.

CALIFORNIA LUTHERAN UNIVERSITY AND AFFILIATE NOTES TO FINANCIAL STATEMENTS

Note 6 – Fair Value Measurements (continued)

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

The University's beneficial interest in irrevocable split interest agreements held or controlled by a third party is classified as Level 3 as the fair values are based on significant unobservable inputs. Since the University has an irrevocable right to receive the income earned from the trust's assets, the fair value of the University's beneficial interest is estimated to approximate the fair value of the trust's assets. The fair values are based on the market values of the trust assets.

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

While the University believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

This paragraph presents information about the level in the fair value hierarchy for the University's assets and liabilities that are not reported at fair value as of May 31, 2015 and 2014. The University issued CEFA bonds that are reported at an amortized cost of \$36,120,000 and \$67,120,000 as of May 31, 2015 and 2014, respectively, in the statement of financial position. These CEFA bonds have an approximate fair value of \$40,006,000 and \$70,151,000 as of May 31, 2015 and 2014, respectively. The University determined these CEFA bonds to be Level 2 measurements in the fair value hierarchy.

CALIFORNIA LUTHERAN UNIVERSITY AND AFFILIATE

NOTES TO FINANCIAL STATEMENTS

Note 6 – Fair Value Measurements (continued)

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

	Fair Value at May 31, 2015	Unfunded Commitments	Redemption Frequency	Redemption Notice Period	Investee Strategies and Other Restrictions
Equity securities funds - U.S.	\$ 8,934,073	\$ -	Daily/Monthly	2-5 days	[1]
Equity securities funds - Non U.S.	16,802,112	-	Daily/Monthly	2-5 days	[1]
Comingled funds - U.S.	30,576,757	-	Daily/Monthly	2-5 days	[1]
Commodities and Other	4,270,702	-	Daily/Monthly	2-5 days	[1]
Hedge funds	8,972	-	Not permitted	n/a	[1]
Partnerships					
Private equity	3,085,101	1,860,000	Not permitted	n/a	[2]
Venture capital	1,118,385	85,000	Not permitted	n/a	[2]
Real estate	89,768	169,000	Not permitted	n/a	[2]
	<u>\$ 64,885,870</u>	<u>\$ 2,114,000</u>			
Balance at May 31, 2015					

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

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

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

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

Investments, in general, are subject to various risks, including credit, interest and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the consolidated financial statements.

CALIFORNIA LUTHERAN UNIVERSITY AND AFFILIATE
NOTES TO FINANCIAL STATEMENTS

Note 7 – Construction in Progress

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

	Estimated Total Cost	Cost to Date	Funding Plan
New student union building	\$ 2,550,000	\$ 718,121	Operations
Other projects		1,672,979	Donations/operations
		<u>\$ 2,391,100</u>	

At May 31, 2014, the following major projects were in progress:

	Total Cost	to Date	Funding Plan
New dining commons	\$ 15,000,000	\$ 13,198,526	Donations/operations
Other projects		325,847	Operations
		<u>\$ 13,524,373</u>	

Note 8 – Property and Equipment

Property and equipment consist of the following at May 31:

	2015	2014
Land	\$ 7,584,992	\$ 7,584,992
Improvements other than buildings	32,176,853	31,366,594
Buildings	148,908,485	136,397,345
Equipment	12,573,186	9,312,509
Library books or materials	4,276,826	4,153,059
	<u>205,520,342</u>	<u>188,814,499</u>
Less: Accumulated depreciation	<u>(69,328,438)</u>	<u>(62,214,103)</u>
Property and equipment, net	<u>\$ 136,191,904</u>	<u>\$ 126,600,396</u>

Depreciation expense totaled \$7,281,597 and \$6,654,441 for the years ended May 31, 2015 and 2014, respectively.

CALIFORNIA LUTHERAN UNIVERSITY AND AFFILIATE

NOTES TO FINANCIAL STATEMENTS

Note 9 – Derivative Instruments

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

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

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

Derivative instruments are reported in the consolidated statements of financial position at fair value as of May 31, 2015 and 2014 as follows:

Derivatives Not Designated as Hedging Instruments	Liabilities Derivative		
	Statement of Financial Position Location	Fair Value	
		2015	2014
Interest exchange agreement	Interest rate exchange agreement liability	\$ 70,973	\$ 111,605

Derivatives Not Designated as Hedging Instruments	Location of Gain on Derivatives Recognized in the Statement of Changes in Net Assets	Amount of Loss on Derivatives Recognized in the Statement of Changes in Net Assets	
		2015	2014
Interest exchange agreement	Unrealized gain on interest rate exchange agreement	\$ 40,632	\$ 56,048

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

Note 10 – Deferred Gift Agreements

The University has arrangements with donors classified as charitable remainder trusts and charitable gift annuities. In general, under these arrangements the University receives a gift from a donor and agrees to pay the donor stipulated amounts over the remaining life of the donor. The arrangement may cover one or more beneficiary and/or successor beneficiary lives. The University invests and administers the related assets and makes distributions to the beneficiaries as required. When the agreement reaches the end of its term, remaining assets are retained by the University as unrestricted, temporarily restricted or permanently restricted net assets, or in some instances, distributed to third-party beneficiaries.

When a gift is received under one of these arrangements, it is split into the amount representing the actuarial present value of the future distributions to the donor and the remaining gift value to be retained for the benefit of the University or third-party beneficiaries. The actuarial liability is adjusted annually using actuarial tables appropriate for the type of arrangement, number of lives covered and age and sex characteristics of the donor. The University used historical interest rates varying from 5% to 10% in making the calculations.

The University received \$165,299 and \$4,259 of gift value relating to deferred gift agreements for the years ended May 31, 2015 and 2014, respectively. The gift value relating to deferred gift agreements are recorded in deferred gifts held by the University and the related liability is recorded to annuities payable on the consolidated statements of financial position.

Note 11 – Long-Term Debt

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

	<u>2015</u>	<u>2014</u>
Note payable	\$ 1,968,750	\$ 2,493,750
Mission Investment Fund note	1,169,961	1,273,764
California Municipal Financing Authority (CMFA)		
Union Bank Direct Placement 2014A	29,339,967	-
Union Bank Direct Placement 2014B	5,000	-
California Educational Facilities Authority (CEFA)		
Revenue Bonds		
1999 Series	-	1,550,000
2004 Series A	-	5,465,000
2004 Series C	-	23,570,000
2008 Series	<u>36,120,000</u>	<u>36,535,000</u>
	<u>\$ 68,603,678</u>	<u>\$ 70,887,514</u>

CALIFORNIA LUTHERAN UNIVERSITY AND AFFILIATE

NOTES TO FINANCIAL STATEMENTS

Note 11 - Long-Term Debt (continued)

The University has a bank note outstanding, secured by 14 individual homes, and totaling \$1,968,750 and \$2,493,750 at May 31, 2015 and 2014, respectively, which matures through February 1, 2019. The required monthly payment ranges between \$48,000 and \$50,000. The University entered into an interest rate exchange agreement related to this note to fix the interest rate at 4.18% (see Note 9).

The University inherited a variable rate loan from the Mission Investment Fund as a part of the merger with PLTS. The balance as of May 31, 2015 and 2014 was \$1,169,961 and \$1,213,764, respectively, at an interest rate of 3.75% adjusted quarterly. The Mission Investment Fund is secured by real property.

The University refinanced the 1999 Series bonds ("CEFA 99"), 2004 Series A and 2004 Series C bonds with a new loan of approximately \$30,000,000 (2014A) on December 2, 2014 with Union Bank. The 2014A is a fixed rate loan at 3.08% maturing on December 2, 2029. In addition, the University set up a new loan (2014B) with Union Bank for \$15,000,000 at a fixed rate of 3.07% with the option to draw the proceeds over a three year period. The outstanding balance on May 31, 2015 was \$5,000. The 2014B loan is intended to finance future construction activities of the University. The 2014B maturity date is December 2, 2029. The 2014A and 2014B debt is secured by real property and a pledge on future revenue.

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

The University is required to maintain debt service reserve funds of approximately \$3,720,000 which were partially funded from bond proceeds. The bond agreements require that certain financial and other covenants be maintained. As of May 31, 2015, management has stated that the University is in compliance with these covenants.

Annual maturities of long-term debt for each of the five years subsequent to May 31, 2015 approximate \$2,584,026, \$2,654,602, \$2,726,758, \$2,679,293, and \$2,371,008 respectively, and approximately \$55,587,991 thereafter.

Note 12 - Short-Term Credit Arrangements

The University has a secured revolving line of credit in the amount of \$4,000,000, with interest at either the LIBOR interest rate plus 1.50% per year or the prime rate minus 0.375% determined by the University at the time of borrowing. There was no balance outstanding as of May 31, 2015 and 2014. The revolving credit line is secured by residential real estate.

CALIFORNIA LUTHERAN UNIVERSITY AND AFFILIATE
NOTES TO FINANCIAL STATEMENTS

Note 13 – Restrictions and Limitations on Net Asset Balances

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

	<u>2015</u>	<u>2014</u>
Endowment funds	\$ 52,529,037	\$ 48,610,873
Funds held in trust by others	866,461	650,361
Student loan funds	322,326	304,278
Annuity, life income and similar funds	<u>1,347,691</u>	<u>1,367,485</u>
	<u>\$ 55,065,515</u>	<u>\$ 50,932,997</u>

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

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

	<u>2015</u>	<u>2014</u>
Gifts and other unexpended revenues and gains available for:		
Scholarships, instruction and other departmental support	\$ 5,169,147	\$ 5,168,568
Acquisition of buildings and equipment	10,970,226	8,309,036
Endowment funds, accumulated earnings	16,753,801	15,698,207
Funds held in trust by others	<u>87,179</u>	<u>101,799</u>
	32,980,353	29,277,610
Annuity, life income and similar funds	<u>1,208,428</u>	<u>1,463,474</u>
	<u>\$ 34,188,781</u>	<u>\$ 30,741,084</u>

Unrestricted net assets consist of the following at May 31:

	<u>2015</u>	<u>2014</u>
Operations	\$ 50,685,120	\$ 49,605,201
Endowment funds - board-designated	23,196,658	21,529,414
Funds held in trust by others	376,753	374,894
Property	<u>61,830,055</u>	<u>62,152,896</u>
	<u>\$ 136,088,586</u>	<u>\$ 133,662,405</u>

CALIFORNIA LUTHERAN UNIVERSITY AND AFFILIATE

NOTES TO FINANCIAL STATEMENTS

Note 14 – Net Assets Released from Restrictions

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

	2015
Scholarships, instruction and other departmental support	\$ 3,469,957
Acquisition of buildings and equipment	<u>315,527</u>
	<u>\$ 3,785,484</u>

Note 15 – Endowment

The University's endowment consists of approximately 300 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the governing board to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the governing board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

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

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

Note 15 – Endowment (continued)

The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the University and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the University
7. The investment policies of the University

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (19,281)	\$ 15,440,392	\$ 52,529,037	\$ 67,950,148
Board-designated endowment funds*	<u>23,215,939</u>	<u>1,313,409</u>	<u>-</u>	<u>24,529,348</u>
Total endowment net assets	<u>\$ 23,196,658</u>	<u>\$ 16,753,801</u>	<u>\$ 52,529,037</u>	<u>\$ 92,479,496</u>

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

CALIFORNIA LUTHERAN UNIVERSITY AND AFFILIATE
NOTES TO FINANCIAL STATEMENTS

Note 15 – Endowment (continued)

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, May 31, 2014	\$ 21,529,414	\$ 15,698,207	\$ 48,610,873	\$ 85,838,494
Investment return				
Investment income, net of fees of \$334,685	102,680	429,926	-	532,606
Net appreciation - realized and unrealized	<u>784,704</u>	<u>2,148,161</u>	<u>-</u>	<u>2,932,865</u>
Total investment return	887,384	2,578,087	-	3,465,471
Contributions	975	114,400	3,668,900	3,784,275
Changes in cash surrender values	31,557	7,724	334,698	373,979
Appropriation of endowment assets for expenditure	(801,620)	(2,390,720)	-	(3,192,340)
Other changes:				
Transfers	<u>1,548,948</u>	<u>746,103</u>	<u>(85,434)</u>	<u>2,209,617</u>
Endowment net assets, May 31, 2015	<u>\$ 23,196,658</u>	<u>\$ 16,753,801</u>	<u>\$ 52,529,037</u>	<u>\$ 92,479,496</u>

Endowment net asset composition by type of fund consists of the following as of May 31, 2014:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (1,292)	\$ 15,058,176	\$ 48,610,873	\$ 63,667,757
Board-designated endowment funds*	<u>21,530,706</u>	<u>640,031</u>	<u>-</u>	<u>22,170,737</u>
Total endowment net assets	<u>\$ 21,529,414</u>	<u>\$ 15,698,207</u>	<u>\$ 48,610,873</u>	<u>\$ 85,838,494</u>

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

CALIFORNIA LUTHERAN UNIVERSITY AND AFFILIATE
NOTES TO FINANCIAL STATEMENTS

Note 15 – Endowment (continued)

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, May 31, 2013	\$ 15,684,477	\$ 10,650,826	\$ 35,091,890	\$ 61,427,193
Investment return				
Investment income, net of fees of \$275,133	208,454	522,168	-	730,622
Net depreciation - realized and unrealized	<u>1,637,698</u>	<u>4,207,151</u>	-	<u>5,844,849</u>
Total investment return	1,846,152	4,729,319	-	6,575,471
Contributions	3,900	-	5,111,303	5,115,203
Changes in cash surrender values	40,960	10,833	137,786	189,579
	(716,910)	(1,822,710)	-	(2,539,620)
	3,660,415	(774,125)	598,677	3,484,967
	<u>1,010,420</u>	<u>2,904,064</u>	<u>7,671,217</u>	<u>11,585,701</u>

Funds with deficiencies – From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the University to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were approximately \$19,300 and \$1,300 as of May 31, 2015 and 2014, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that were deemed prudent by the governing board. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets.

Return objectives and risk parameters – The University has adopted investment and spending policies that attempt to be prudent and provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the University must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, the long-term minimum need of the endowment is to exceed a total return averaging at least the annual spending rate plus inflation, fees and costs. Actual returns in any year may vary from this amount. The long-term objective is to build endowment value over time by achieving incremental returns in excess of need while appropriately managing portfolio risk.

CALIFORNIA LUTHERAN UNIVERSITY AND AFFILIATE

NOTES TO FINANCIAL STATEMENTS

Note 15 – Endowment (continued)

Strategies employed for achieving objectives – To satisfy its long-term rate-of-return objectives, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The University targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending policy and how the investment objectives relate to spending policy – The University has a policy of appropriating for distribution each year 5.00% of its endowment fund's average fair value for the twelve quarters prior to and including December 31 preceding the fiscal year-end. In establishing this policy, the University considered the long-term expected return on its endowment. Accordingly, over the long-term, the University expects the current spending policy to allow its endowment to grow at an average of 4.00% annually. This is consistent with the University's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

Note 16 – Operating Leases

The University has operating leases for offsite student facilities and one vehicle. Rental expense associated with these leases totaled approximately \$1,055,000 and \$855,000 for the years ended May 31, 2015 and 2014, respectively.

Future minimum lease payments on leases in effect on May 31, 2015, are as follows:

Years Ended May 31,	Operating Leases
2016	\$ 1,217,101
2017	1,039,606
2018	1,001,212
2019	712,429
2020	517,969
Thereafter	2,208,296
	<u>\$ 6,696,613</u>

CALIFORNIA LUTHERAN UNIVERSITY AND AFFILIATE
NOTES TO FINANCIAL STATEMENTS

Note 17 – Supplemental Disclosure of Cash Flow Information

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

	<u>2015</u>	<u>2014</u>
Interest paid, net of interest capitalized of \$11,064 and \$233,372 for 2015 and 2014, respectively	\$ 3,769,518	\$ 3,293,799
Noncash investing and financing activities		
Retirement of fully depreciated assets	167,262	870,582
Construction in progress included in accounts payable	568,816	504,909

Note 18 – Subsequent Events

Subsequent events are events or transactions that occur after the Statement of Financial Position date but before financial statements are available to be issued. The University has evaluated subsequent events through September 14, 2015, which is the date the consolidated financial statements were available to be issued. The University recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the consolidated statement of financial position, including the estimates inherent in the process of preparing the financial statements. The University does not recognize subsequent events that provide evidence about conditions that did not exist at the date of the consolidated statement of financial position but arose after the consolidated statement of financial position date and before the financial statements are available to be issued.

SUPPLEMENTARY INFORMATION

**CALIFORNIA LUTHERAN UNIVERSITY AND AFFILIATE
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
AS OF MAY 31, 2015**

ASSETS	California Lutheran University	California Lutheran Education Foundation	Total
Cash and cash equivalents	\$ 52,592,843	\$ -	\$ 52,592,843
Receivables			
Student accounts, net	1,763,326	-	1,763,326
Grants	328,247	-	328,247
Contributions	7,485,342	-	7,485,342
Other	1,676,917	-	1,676,917
	<u>11,253,832</u>	<u>-</u>	<u>11,253,832</u>
Student loans receivable, net	1,621,171	-	1,621,171
Prepaid expenses, inventories and deposits	1,705,167	-	1,705,167
Investments			
Endowment	92,372,691	565,427	92,938,118
Deferred gifts held by University	3,057,137	-	3,057,137
California Lutheran Educational Foundation investments	-	5,772,940	5,772,940
Other	310,110	-	310,110
	<u>95,739,938</u>	<u>6,338,367</u>	<u>102,078,305</u>
Funds held in trust by others	1,330,393	-	1,330,393
Deposits with trustee - reserved funds	3,934,040	-	3,934,040
Debt acquisition costs	2,011,245	-	2,011,245
Construction in progress	2,391,100	-	2,391,100
Property, plant, and equipment, net	136,191,904	-	136,191,904
Other intangible assets	475,000	-	475,000
	<u>475,000</u>	<u>-</u>	<u>475,000</u>
TOTAL ASSETS	<u>\$ 309,246,633</u>	<u>\$ 6,338,367</u>	<u>\$ 315,585,000</u>
LIABILITIES AND NET ASSETS			
LIABILITIES			
Accounts payable	\$ 2,914,079	\$ -	\$ 2,914,079
Accrued liabilities	8,063,148	-	8,063,148
Student housing deposits	767,708	-	767,708
Deferred revenue	1,483,972	-	1,483,972
Interest rate exchange agreement liability	70,973	-	70,973
Annuities payable	2,359,838	2,285,733	4,645,571
Deposits held in trust for others	455,449	1,637,643	2,093,092
Government grants refundable	1,599,897	-	1,599,897
Long-term debt	68,603,678	-	68,603,678
	<u>68,603,678</u>	<u>-</u>	<u>68,603,678</u>
TOTAL LIABILITIES	<u>86,318,742</u>	<u>3,923,376</u>	<u>90,242,118</u>
NET ASSETS			
Unrestricted	136,068,430	20,156	136,088,586
Temporarily restricted	33,179,376	1,009,405	34,188,781
Permanently restricted	53,680,085	1,385,430	55,065,515
	<u>53,680,085</u>	<u>1,385,430</u>	<u>55,065,515</u>
TOTAL NET ASSETS	<u>222,927,891</u>	<u>2,414,991</u>	<u>225,342,882</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 309,246,633</u>	<u>\$ 6,338,367</u>	<u>\$ 315,585,000</u>

CALIFORNIA LUTHERAN UNIVERSITY AND AFFILIATE
CONSOLIDATING STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MAY 31, 2015

	California Lutheran University	California Lutheran Education Foundation	Total
OPERATING			
Revenues, gains and other support			
Tuition and fees	\$ 118,683,225	\$ -	\$ 118,683,225
Less: Scholarships and grants	<u>(40,942,024)</u>	<u>-</u>	<u>(40,942,024)</u>
Net tuition and fees	77,741,201	-	77,741,201
Government and grants	2,341,889	-	2,341,889
Contributions	4,810,617	-	4,810,617
Short-term investment gain	49,150	-	49,150
Long-term investment income and gains allocated for operations	3,153,190	-	3,153,190
Interest and dividends	360,003	-	360,003
Sales and services of educational activities	1,112,770	-	1,112,770
Other sources	2,983,345	-	2,983,345
Sales and services of auxiliary enterprises	<u>16,988,108</u>	<u>-</u>	<u>16,988,108</u>
 TOTAL REVENUES, GAINS AND OTHER SUPPORT	 <u>109,540,273</u>	 <u>-</u>	 <u>109,540,273</u>
Expenses			
Program Expenses			
Instruction	38,235,343	-	38,235,343
Public service	4,897,790	-	4,897,790
Academic support	6,770,513	-	6,770,513
Student services	20,657,954	-	20,657,954
Auxiliary enterprises	18,971,052	-	18,971,052
Support Expenses			
Institutional support	17,292,784	-	17,292,784
Allocable expenses			
Operation and maintenance of plant	9,138,096	-	9,138,096
Depreciation	7,281,597	-	7,281,597
Interest	3,769,518	-	3,769,518
Less: Allocated expenses	<u>(20,189,212)</u>	<u>-</u>	<u>(20,189,212)</u>
 TOTAL OPERATING EXPENSES	 <u>106,825,435</u>	 <u>-</u>	 <u>106,825,435</u>
 Change in net assets from operating activities	 <u>2,714,838</u>	 <u>-</u>	 <u>2,714,838</u>
NON-OPERATING			
Endowment income	3,465,471	-	3,465,471
Less: Long-term investment income and gains allocated for operations	<u>(3,153,190)</u>	<u>-</u>	<u>(3,153,190)</u>
Investment return distributed	312,281	-	312,281
Net gains (losses) on other investments	(19,841)	23,342	3,501
Net gain on CEFA bond reserve	248,202	-	248,202
Unrealized gain on interest rate exchange agreement	40,632	-	40,632
Deferred giving - gifts	4,009,060	-	4,009,060
Capital giving - gifts	2,782,876	-	2,782,876
Gains (losses) on funds held in trust by others	216,438	-	216,438
Adjustment to actuarial liability for annuities payable	129,946	(448,418)	(318,472)
Loss on disposal of property, plant and equipment	<u>(2,960)</u>	<u>-</u>	<u>(2,960)</u>
 Change in net assets from nonoperating activities	 <u>7,716,634</u>	 <u>(425,076)</u>	 <u>7,291,558</u>
 CHANGE IN NET ASSETS	 10,431,472	 (425,076)	 10,006,396
NET ASSETS, beginning of year	<u>213,642,773</u>	<u>1,693,713</u>	<u>215,336,486</u>
NET ASSETS, end of year	<u>\$ 224,074,245</u>	<u>\$ 1,268,637</u>	<u>\$ 225,342,882</u>