

Financial Statements and Report of Independent  
Certified Public Accountants

**UNIVERSITY OF LA VERNE**



June 30, 2018 (with comparative summarized  
financial information for June 30, 2017)

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## Report of Independent Certified Public Accountants

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To the Board of Trustees  
University of La Verne

We have audited the accompanying financial statements of the University of La Verne (a nonprofit organization) (the “University”), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

### Management’s responsibility for the financial statements

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

### Auditor’s responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the University’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the 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 financial statements referred to above present fairly, in all material respects, the financial position of the University of La Verne as of June 30, 2018, and the changes 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 2017 summarized comparative information*

We have previously audited the University's 2017 financial statements (not presented herein), and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 20, 2017. In our opinion, the accompanying comparative summarized financial information as of and for the year ended June 30, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Grant Thornton LLP*

Los Angeles, California  
November 16, 2018

University of La Verne  
STATEMENT OF FINANCIAL POSITION

As of June 30, 2018

(With comparative summarized financial information at June 30, 2017)

	2018	2017
<b>Assets</b>		
Cash and cash equivalents	\$ 61,550,146	\$ 35,756,607
Cash whose use is limited	14,244,803	40,368,232
Accounts and notes receivable, net	6,631,327	7,168,924
Pledges receivable, net	3,916,344	1,806,436
Prepaid expenses and other assets	3,197,669	2,985,444
Investments	151,631,811	153,457,705
Property, plant and equipment, net	176,927,784	149,202,144
Total assets	\$ 418,099,884	\$ 390,745,492
<b>Liabilities and Net Assets</b>		
Liabilities		
Accounts payable and accrued liabilities	\$ 14,617,557	\$ 10,604,346
Student deposits and deferred revenues	12,719,801	12,523,283
Actuarial liability for annuity obligations	3,103,149	3,199,650
Bonds and notes payable	134,345,422	138,120,846
Federal student loan funds	2,561,657	2,798,217
Total liabilities	167,347,586	167,246,342
Net assets		
Unrestricted		
Available for operations	27,603,742	23,193,594
Designated for:		
Funds functioning as endowment	43,701,242	42,753,773
Facilities and equipment	94,103,837	88,795,548
Total unrestricted	165,408,821	154,742,915
Temporarily restricted	44,517,355	29,029,016
Permanently restricted	40,826,122	39,727,219
Total net assets	250,752,298	223,499,150
Total liabilities and net assets	\$ 418,099,884	\$ 390,745,492

The accompanying notes are an integral part of this financial statement.

University of La Verne  
STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2018  
(With comparative summarized financial information for the year ended June 30, 2017)

	2018				2017 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
<b>Operating activities</b>					
<b>Revenues</b>					
Student tuition and fees	\$ 195,248,989	\$ -	\$ -	\$ 195,248,989	\$ 191,224,417
Less: Student financial aid	(52,739,962)	-	-	(52,739,962)	(49,723,958)
Net student tuition and fees	142,509,027	-	-	142,509,027	141,500,459
Private gifts and grants	1,514,867	11,945,609	608,113	14,068,589	6,087,835
Government grants	2,428,100	5,666	470,000	2,903,766	1,896,735
Sponsored programs	109,782	-	-	109,782	157,705
Investment income	1,706,754	1,729,903	-	3,436,657	2,571,289
Auxiliary enterprises	10,482,006	-	-	10,482,006	9,960,317
Annuity and trust gifts	-	200,000	-	200,000	50,000
Other	1,264,936	(20,085)	-	1,244,851	1,247,460
Net assets released from restriction	1,985,818	(1,985,818)	-	-	-
Total revenues	162,001,290	11,875,275	1,078,113	174,954,678	163,471,800
<b>Expenses</b>					
Instruction	65,818,058	-	-	65,818,058	64,543,946
Academic support	18,872,986	-	-	18,872,986	17,026,139
Student services	20,351,793	-	-	20,351,793	20,255,198
Institutional support	39,137,458	-	-	39,137,458	39,949,761
Auxiliary enterprises	7,307,623	-	-	7,307,623	7,439,378
Total expenses	151,487,918	-	-	151,487,918	149,214,422
Increase in net assets from operating activities	10,513,372	11,875,275	1,078,113	23,466,760	14,257,378
<b>Nonoperating activities</b>					
Net gains on investments	157,933	3,954,040	-	4,111,973	10,532,206
Net gains (losses) on disposal of assets	(5,399)	-	-	(5,399)	1,016,880
Transfer of donor restricted net assets	-	(20,790)	20,790	-	-
Net change in actuarial obligations	-	(320,186)	-	(320,186)	(175,910)
Net loss on refinance of bonds	-	-	-	-	(9,103,891)
Increase in net assets from non-operating activities	152,534	3,613,064	20,790	3,786,388	2,269,285
Changes in net assets	10,665,906	15,488,339	1,098,903	27,253,148	16,526,663
Net assets at beginning of year	154,742,915	29,029,016	39,727,219	223,499,150	206,972,487
Net assets at end of year	\$ 165,408,821	\$ 44,517,355	\$ 40,826,122	\$ 250,752,298	\$ 223,499,150

The accompanying notes are an integral part of this financial statement.

University of La Verne  
STATEMENT OF CASH FLOWS  
For the Year Ended June 30, 2018  
(With comparative summarized financial information for the year ended June 30, 2017)

	2018	2017
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 27,253,148	\$ 16,526,663
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Amortization of bond (premium)/cost	(345,424)	72,663
Bad debt expense	657,119	16,754
Loss on bond refinance	-	9,103,891
Depreciation	7,977,980	7,936,365
Loss on disposal of assets	5,399	1,016,880
Contributions of investments and property	(570,032)	(1,774,789)
Net realized and unrealized gain on investments	(4,111,973)	(12,556,861)
Adjustment of actuarial liabilities	85,574	(22,880)
Contributions restricted for long-term investment	(1,078,113)	(2,904,868)
Adjustment to cash surrender value - life insurance	(214,163)	(310,923)
Change in assets and liabilities, net of effects from noncash activities		
Accounts and other receivables	(17,774)	(34,430)
Pledges receivable, net	(2,287,174)	44,241
Prepaid expenses and other assets	(212,225)	(345,311)
Accounts payable and accrued liabilities	4,013,211	(52,838)
Student deposits and deferred revenues	196,518	228,497
Actuarial liability for annuity obligations	225,684	197,940
Net cash provided by operating activities	31,577,755	17,140,994
<b>Cash flows from investing activities</b>		
Purchases of property, plant and equipment	(35,709,019)	(8,644,414)
Purchases of investments	(38,663,599)	(25,143,272)
Proceeds from sales and maturity of investments	45,422,315	8,674,671
Net change in student notes receivable	75,519	16,224
Net cash used in investing activities	(28,874,784)	(25,096,791)

The accompanying notes are an integral part of this financial statement.

University of La Verne

STATEMENT OF CASH FLOWS - CONTINUED

For the Year Ended June 30, 2018

(With comparative summarized financial information for the year ended June 30, 2017)

	<u>2018</u>	<u>2017</u>
<b>Cash flows from financing activities</b>		
Proceeds from contributions for investment in endowment	968,113	2,700,740
Proceeds from issuance of CMFA 2017 A & B bond, net of issuance costs	-	137,649,093
Investment income on annuity obligations	73,346	-
Extinguished bonds	-	(90,485,000)
Payments on life income and annuity obligations	(407,757)	(406,023)
Payments on bonds and notes payable	(3,430,000)	(4,079,167)
Change in federal student loan funds	(236,560)	(171,955)
Use (receipt) of cash whose use is limited	26,123,426	(37,538,690)
Net cash provided by financing activities	<u>23,090,568</u>	<u>7,668,998</u>
Net change in cash and cash equivalents	25,793,539	(286,799)
Cash and cash equivalents at beginning of year	<u>35,756,607</u>	<u>36,043,406</u>
Cash and cash equivalents at end of year	<u>\$ 61,550,146</u>	<u>\$ 35,756,607</u>
<b>Supplementary cash flow information</b>		
Cash paid for interest	<u>\$ 5,220,179</u>	<u>\$ 3,603,642</u>
Non cash gifts - investments and property received	<u>\$ 570,032</u>	<u>\$ 1,774,789</u>
Accounts payable related to acquisition of fixed assets	<u>\$ 5,222,795</u>	<u>\$ -</u>

The accompanying notes are an integral part of this financial statement.

University of La Verne

NOTES TO FINANCIAL STATEMENTS

As of June 30, 2018

(With comparative summarized financial information at June 30, 2017)

**NOTE 1 - NATURE OF OPERATIONS**

The University of La Verne (the “University”) was founded in 1891 as an independent coeducational liberal arts and science college. The University consists of the College of Arts and Sciences, the College of Business and Public Management, the College of Law, the College of Education and Organizational Leadership, and the Regional Campus Administration. The University derives most of its revenue from tuition and student fees and from gifts made by individuals, corporations and foundations. The objective of the University as a nonprofit educational institution is service, and the primary obligation of accounting and reporting is for resources received and applied rather than the determination of net income.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation**

The accompanying 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”).

The financial statements include certain prior-year summarized financial information in total but not by net asset category. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the University’s financial statements for the year ended June 30, 2017, from which the summarized information was derived.

**Net Assets**

A description of the three net asset categories follows:

*Unrestricted Net Assets* are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by actions of the Board of Trustees.

*Temporarily Restricted Net Assets* include gifts that are subject to donor-imposed restrictions that can be fulfilled by actions of the University pursuant to those stipulations and/or that expire by the passage of time.

*Permanently Restricted Net Assets* include gifts and contributions subject to donor-imposed stipulations that require the funds be maintained permanently by the University. Generally, the donors of these assets permit the University to use all or part of the investment return on these assets. Such assets primarily include the University’s permanent endowment funds.

University of La Verne  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
As of June 30, 2018  
(with comparative summarized financial information at June 30, 2017)

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Net Assets (continued)**

Expenses are reported as decreases in unrestricted net assets. Expirations of donor-imposed stipulations that simultaneously increase one class of net assets and decrease another are reported as reclassified to unrestricted net assets and reported in the accompanying statements of activities as net assets released from restrictions. Temporarily restricted contributions received and expended in the same fiscal year are recorded as unrestricted net assets.

**Cost Allocations**

The financial statements present expenses by functional classification. Depreciation expense is allocated to the functional categories based upon the square foot occupancy of the respective departments or programs. Interest expense is allocated to the functional categories based upon the purpose of the related debt. Plant operations and maintenance represents space-related costs that are allocated to the functional categories based upon the square foot occupancy of the respective departments or programs.

**Revenue Recognition**

Student tuition and fees are recorded as revenues in the period during which the academic services are rendered. Student tuition and fees received prior to when services are rendered are recorded as deferred revenues.

Investment income and gains and losses on investments and changes in other assets and liabilities are reported as an increase or decrease in unrestricted net assets unless their use is restricted by the donor.

**Cash and Cash Equivalents**

Short-term investments with an original maturity of three months or less at the time of purchase are considered to be cash equivalents. Short-term investments with an original maturity greater than three months, but less than one year are included in investments. Cash and cash equivalents are reported at cost which approximates fair value. The University maintains cash in various financial institutions that periodically, and as of year-end, exceeds federally insured limits. Management does not consider this concentration to be a significant credit risk.

**Cash Whose Use Is Limited**

Indenture requirements of bond financing (see Note 8, "Bonds and Notes Payable") provide for the establishment and maintenance of various accounts with trustees. The indenture terms limit the use of these funds to the construction of plant facilities and payment of principal and interest to bond holders. Cash whose use is limited is comprised of cash equivalents, government, and corporate securities and is recorded at cost, which approximates fair value.

University of La Verne  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
As of June 30, 2018  
(with comparative summarized financial information at June 30, 2017)

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Accounts and Notes Receivable**

Accounts and notes receivable are reported at net realizable value and face value less an allowance for doubtful accounts, respectively. Accounts receivable are primarily related to student balances related to tuition and fees, and notes receivable are primarily related to student financial aid programs. Accounts and notes receivable are written off against the allowance for doubtful accounts when determined to be uncollectible based upon management's assessment of individual accounts. The allowance for doubtful accounts is estimated based on the University's historical experience and periodic review of individual accounts. The majority of the University's notes receivable represents amounts due under federally guaranteed programs; therefore, no reserves are recorded for the federal portion.

**Investments**

Investments are stated at fair value. Net gains or losses on investments, which consist of the realized gains or losses and the unrealized appreciation or depreciation on those investments, are shown in the accompanying statement of activities. Realized gains or losses on the sale of investments are recorded on the trade date.

The alternative investments, which are not readily marketable, are carried at fair values as provided by the investment managers. The University reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and assumptions used in determining the fair value of the alternative investments. Those fair values may differ significantly from the values that would have been used had a ready market for these securities existed as well as the ultimate sale that may be received upon disposition.

Securities acquired by gift are recorded at their fair market value at the date of gift. The University's policy is to liquidate all gifts of securities immediately upon receipt.

**Treatment of Endowments**

As required by U.S. GAAP, 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.

University of La Verne  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
As of June 30, 2018  
(with comparative summarized financial information at June 30, 2017)

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Property, Plant and Equipment**

Property, plant, and equipment are generally stated at cost or fair value at the date of the gift less accumulated depreciation. The University employs a monthly depreciation convention whereby assets acquired during any time of the month receive a full month's depreciation. Subsequently, depreciation is computed on a straight-line basis over the estimated useful lives of the assets according to the following schedule:

Buildings	40 years
Equipment	3-7 years
Improvements	20 years

The University records conditional asset retirement obligations associated with the legally required removal and disposal of certain hazardous materials, primarily asbestos, present in its facilities. When an asset retirement obligation is identified, the University records the fair value of the obligation as a liability. The fair value of the obligation is also capitalized as property, plant and equipment and then amortized over the estimated useful life of the associated asset. The fair value of the conditional asset retirement obligations is estimated using a probability weighted, discounted cash flow model. The present value of future estimated cash flows is calculated using a credit-adjusted, interest rate applicable to the University in order to determine the fair value of the conditional asset retirement obligations. As of June 30, 2018, \$712,184 of conditional asset retirement obligations is included within accounts payable and accrued liabilities in the accompanying statement of financial position.

**Annuity and Life Income Contracts and Agreements**

The University has legal title to annuity and life income contracts and agreements subject to life interests of beneficiaries. No significant financial benefit is now being or can be realized until the contractual obligations are released.

The University uses the actuarial method of recording annuity and life income contracts and agreements. Under this method, the asset is recorded at fair value when a gift is received. The present value of the aggregate annuity payable is recorded as a liability, based upon life expectancy tables, and the remainder is recorded as a contribution in the appropriate net asset category. The liability account is charged with payments to beneficiaries. Annual adjustments are made between the liability account and the net assets account for investment income and gains as well as actuarial gains and losses. The actuarial liability is based on the present value of future payments discounted at the University's credit-adjusted rate (ranging from 1.2% to 6.0%) at the time such contracts were recorded and over their estimated lives according to the 2000 census mortality tables.

University of La Verne  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
As of June 30, 2018  
(with comparative summarized financial information at June 30, 2017)

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Use of Estimates**

The preparation of 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Tax Status**

The University follows guidance that clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. This guidance provides that the tax effects from an uncertain tax position can only be recognized in the financial statements if the position is “more-likely-than-not” to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged.

The University is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code, though it is subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the Code. The University has also been recognized by the California Franchise Tax Board as exempt from California franchise and income taxes under Section 23701(d) of the California Revenue and Taxation Code. The University has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; to determine its filing and tax obligations in jurisdictions for which it has nexus; and to identify and evaluate other matters that may be considered tax positions. The University has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements.

**Re-Designation of Net Assets**

Certain amounts previously received have been transferred between net asset categories due to changes in designations or funds required to conform with donor requirements.

**Recently Issued Accounting Pronouncements**

In August 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-14, *Not-for-Profit Entities (Topic 958)*. The provisions of this ASU include a change from three classes of net assets to two, *net assets with donor restrictions* and *net assets without donor restrictions*. Certain enhanced disclosures are also required. The amendments in this update are effective for fiscal years beginning after December 15, 2017, with early adoption permitted. The University is in the process of evaluating the impact of this ASU on its operations.

University of La Verne  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
As of June 30, 2018  
(with comparative summarized financial information at June 30, 2017)

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Recently Issued Accounting Pronouncements (continued)**

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The core principal of this ASU is that a lessee should recognize an asset and a liability for almost all leases. Lessees should recognize a liability to make lease payments (the lease liability) and a right-of-use asset representing their right to use the underlying asset for the lease term. The amendments in this update are effective for fiscal years beginning after December 15, 2018, with early adoption permitted. The University is in the process of evaluating the impact of this ASU on its operations.

In August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*. The guidance defers the implementation date of ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* to reporting periods beginning after December 15, 2017 for public business entities. ASU 2014-09 will impact the way in which some entities recognize revenue for certain types of transactions. The University is in the process of evaluating the impact of this standard on its operations.

**NOTE 3 - ACCOUNTS AND NOTES RECEIVABLE**

Accounts and notes receivable at June 30, 2018 consists of the following:

a) Student accounts receivable, net of allowance for doubtful accounts of \$664,754	\$ 1,296,001
b) Student notes receivable, net of allowance for doubtful accounts of \$80,000	4,693,203
c) Other receivables, net of allowance for doubtful accounts of \$2,695,594	<u>642,123</u>
Total accounts and notes receivable	<u><u>\$ 6,631,327</u></u>

Long-term notes receivables at June 30, 2018 consist of the following:

	<b>Financing Receivables</b>	<b>Allowance for Doubtful Accounts</b>	<b>Net</b>
Perkins loans	\$ 2,145,256	\$ -	\$ 2,145,256
Other student loans	2,627,947	80,000	2,547,947
Total	<u><u>\$ 4,773,203</u></u>	<u><u>\$ 80,000</u></u>	<u><u>\$ 4,693,203</u></u>

University of La Verne  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
As of June 30, 2018  
(with comparative summarized financial information at June 30, 2017)

**NOTE 3 - ACCOUNTS AND NOTES RECEIVABLE - Continued**

Management regularly assesses the adequacy of the allowance for doubtful accounts by performing ongoing evaluations of the student loan portfolio, including such factors as the differing economic risks associated with each loan category, the financial condition of specific borrowers, the economic environment in which the borrowers operate, the level of delinquent loans, the value of any collateral and, where applicable, the existence of any guarantees or indemnifications. The University's Perkins receivable represents the amounts due from current and former students under the Federal Perkins Loan Program. Loans disbursed under the Federal Perkins Loan program are able to be assigned to the Federal Government in certain non-repayment situations. In these situations, the Federal portion of the loan balance is guaranteed. The other student loans receivable represents the amounts due from current and former students under the University's institutional loan program funded by the Weingart Foundation. On an annual basis, the University replenishes the Weingart funds for those loans that are in a default status. The current fiscal year defaults were \$5,349 bringing the accumulated total of defaulted loans since the program inception to \$746,023 as of June 30, 2018.

The Perkins loan program expired on September 30, 2017. No additional disbursements are permitted after June 30, 2018. The University may choose to assign outstanding Perkins loans to the Department of Education or liquidate their revolving fund. However, if loans are assigned, the Department of Education will keep all monies collected, including the institutional capital contribution amount. If the University elects to keep servicing the outstanding loans and remit excess cash (as defined) annually, the University would then be permitted to keep the institutional capital contribution amount and repurpose those funds.

Factors also considered by management when performing its assessment, in addition to general economic conditions and the other factors described above, included, but were not limited to, a detailed review of the aging of the student loan receivable detail and a review of the default rate by loan category in comparison to prior years. The level of the allowance is adjusted based on the results of management's analysis.

It is the University's policy to consider a loan delinquent 120 days or more past due. Appropriate notification is sent to the student that the loan is considered in default. The following table illustrates the aging analysis of receivables at June 30, 2018:

	<u>Current</u>	<u>30-59 Days Past Due</u>	<u>60-89 Days Past Due</u>	<u>&gt; 90 Days Past Due</u>	<u>Total Past Due</u>	<u>Total Financing Receivables</u>
Perkins loans	\$ 1,742,868	\$ 1,044	\$ 1,777	\$ 399,567	\$ 402,388	\$ 2,145,256
Other student loans	1,873,208	1,654	1,522	751,563	754,739	2,627,947
Total	<u>\$ 3,616,076</u>	<u>\$ 2,698</u>	<u>\$ 3,299</u>	<u>\$ 1,151,130</u>	<u>\$ 1,157,127</u>	<u>\$ 4,773,203</u>

University of La Verne  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
As of June 30, 2018  
(with comparative summarized financial information at June 30, 2017)

**NOTE 4 - PLEDGES RECEIVABLE**

Pledges receivable consists of unconditional promises to give to the University in the future and are recorded at their estimated fair value. Pledges due beyond one year have been discounted at the treasury rate (ranging from 1.2% to 6%).

Pledges receivable at June 30, 2018 are expected to be collected as follows:

Due in less than one year	\$ 2,416,480
Due in one to five years	<u>2,181,167</u>
Total pledges receivable	<u>\$ 4,597,647</u>

Pledges receivable at June 30, 2018 are intended for the following uses:

Facilities and equipment	\$ 2,130,000
Endowment	975,833
Restricted	1,070,000
Unrestricted	421,814
Less: Allowance for doubtful pledges	(562,405)
Discount	<u>(118,898)</u>
Pledges receivable, net	<u>\$ 3,916,344</u>

**NOTE 5 - INVESTMENTS**

Investments consisted of the following at June 30, 2018, stated at fair value:

	<b>Fair Value</b>
	<u>                    </u>
Short-term investments	\$ 1,543,017
Mutual funds	50,104,062
Equities	18,685,009
Fixed income	63,530,045
Alternative investments	14,278,333
Insurance policies	<u>3,228,240</u>
Total	<u>\$ 151,368,706</u>

In addition to the investments carried at fair value, the University holds \$263,105 in real estate investments, which are carried at cost.

University of La Verne  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
As of June 30, 2018  
(with comparative summarized financial information at June 30, 2017)

**NOTE 5 - INVESTMENTS – Continued**

U.S. GAAP has established a framework to measure fair value, and defined the required disclosures about fair value measurements. FASB ASC 820, *Fair Value Measurements*, favors the use of market-based information over entity-specific information. The standard prescribes a three-level hierarchy for fair value measurements based on the transparency of information, such as the pricing source, used in the valuation of an asset as of the measurement date.

In May 2015, the FASB issued ASU 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, which removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value (NAV) per share practical expedient and limits the disclosure requirement. Investments measured and reported at fair value are classified and disclosed in one of the following categories.

Level I – Quoted prices are available in active markets for identical investments as of the reporting date, without adjustment. The type of investments in Level I include listed equities held in the name of the University, and exclude listed equities and other securities held indirectly through commingled funds.

Level II – Pricing inputs, including broker quotes, are generally those other than exchange quoted prices in active markets, which are either directly or indirectly observable as of the measurement date, and fair value is determined through the use of models or other valuation methodologies.

Level III – Pricing inputs are unobservable for the investment and includes situations where there is little, if any, market activity for the investment. Investments that are included in this category generally include privately held investments and securities held in partnership format.

Net Asset Value (“NAV”) – An investment for which fair value is measured using net asset value per share (or its equivalent) and which is included in a separate category to permit reconciliation.

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**NOTE 5 - INVESTMENTS – Continued**

**Fair Value Hierarchy of Investments**

The following table presents the University's fair value hierarchy levels as of June 30, 2018:

	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>	<u>NAV</u>	<u>Total</u>
Equity securities - U.S.	\$ 16,321,890	\$ -	\$ 35,800	\$ -	\$ 16,357,690
Equity securities - non-U.S.	2,327,319	-	-	-	2,327,319
Fixed income securities - U.S.	-	50,123,626	-	-	50,123,626
Fixed income securities - non-U.S.	-	13,406,420	-	-	13,406,420
Cash equivalents	1,543,017	-	-	-	1,543,017
Mutual funds	50,104,061	-	-	-	50,104,061
Hedge fund - fund of funds	7,308,835	-	-	6,969,498	14,278,333
Contributed life insurance	-	-	3,228,240	-	3,228,240
Balance at June 30, 2018	<u>\$ 77,605,122</u>	<u>\$ 63,530,046</u>	<u>\$ 3,264,040</u>	<u>\$ 6,969,498</u>	<u>\$ 151,368,706</u>

Equity securities – U.S. – These investments are comprised primarily of common stocks in U.S. companies and are intended to provide income and capital growth. Those traded on an active exchange and priced using unadjusted market quotes for identical assets are classified as Level I. Those securities not traded on an active exchange are classified as Level III.

Equity securities – non-U.S. – These investments are comprised primarily of common stocks in companies located in Europe and Asia and are intended to provide income and capital growth. These securities are traded on an active exchange, are priced using unadjusted market quotes for identical assets, and are classified as Level I.

Fixed income securities – U.S. – These investments are U.S. assets and include U.S. Treasury and Agency issues, corporate bonds, and other asset-backed securities. These securities are intended to provide long-term real returns while focusing on principal preservation. They are classified as Level II as the valuation is derived from pricing inputs other than unadjusted market quotes of identical assets.

Fixed income securities – non-US – These investments are non-U.S. corporate securities. These securities are intended to provide long-term real returns while focusing on principal preservation. They are classified as Level II as the valuation is derived from pricing inputs other than unadjusted market quotes of identical assets.

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**NOTE 5 - INVESTMENTS - Continued**

**Fair Value Hierarchy of Investments (continued)**

Cash equivalents – Cash equivalents include cash deposits which seek to provide current income while maintaining liquidity. Cash equivalents are classified as Level I.

Mutual funds – Mutual funds consist of several distinct funds with varying portfolio compositions and objectives. These investments are traded on an active exchange, are priced using unadjusted market quotes for identical assets, and are classified as Level I.

Hedge fund – Fund of funds – These funds are primarily composed of equities, specialized debt and credit instruments, and multi-strategy assets. The underlying funds invest in long and short common stocks of U.S. and non-U.S. issuers; long and short corporate bonds and other fixed income securities, including distressed securities of both U.S. and non-U.S. issuers; and other investment vehicles including but not limited to risk arbitrage, convertible bond arbitrage, and intra-capital arbitrage. The NAV may be utilized to determine the fair value for the investment value as of June 30, 2018. If so, they are disclosed under the “NAV” category.

Contributed life insurance – These funds are primarily invested in annuity contracts, U.S. and foreign equities, and debt instruments. Pricing inputs are unobservable for these investments, and there is not an active trading market. As such, they are classified as Level III.

The following table summarizes the University’s Level III reconciliation as of June 30, 2018:

	<b>Beginning Balance</b>	<b>Unrealized Gain</b>	<b>Ending Balance</b>
Stocks-private equity	\$ 35,800	\$ -	\$ 35,800
Contributed life insurance	3,014,077	214,163	3,228,240
Balance at June 30, 2018	\$ 3,049,877	\$ 214,163	\$ 3,264,040

The University recognizes transfers in and out of Level III at the beginning of the fiscal year.

FASB issued guidance on how organizations should estimate the fair value of certain alternative investments. The fair value of such investments can be determined using NAV as a practical expedient, unless it is probable that the asset will be sold at something other than NAV. The following table lists the University’s alternative investments by major investment category:

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**NOTE 5 - INVESTMENTS - Continued**

**Fair Value Hierarchy of Investments (continued)**

Category of Investment	Investment Strategy	Fair Value Determined Using NAV	Number of Funds	Unfunded Commitment	Remaining Life	Redemption Restrictions and Terms
Hedge Fund - Fund of Funds	Employing Directional, Defensive, and Other Strategies and a Combination of U.S. and Foreign Assets. Defensive strategies; 4% of allocation - other; 5% of allocation - cash	\$ 6,969,498	2	\$ -	Not Applicable	Ranging from no restrictions to 2-Year rolling liquidity with 95 Days notice
Total		<u>\$ 6,969,498</u>				

**NOTE 6 - ENDOWMENTS**

The University's endowment consists of individual donor-restricted funds and board-designated restricted funds. The net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. For the board designated funds functioning as endowment, the net assets are classified as unrestricted.

The Board of Trustees of the University has interpreted the California Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation 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 the donor-restricted endowment fund 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 fund:

- (1) The duration and preservation of the fund
- (2) The purposes of the organization 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

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**NOTE 6 - ENDOWMENTS – Continued**

- (6) Other resources of the organization
- (7) The investment policies of the organization

The following tables present the University's endowment composition, changes, and net asset classifications as of and for the indicated years:

Endowment net asset composition by type of fund as of June 30, 2018:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment	\$ (10,939)	\$ 23,242,281	\$ 36,810,830	\$ 60,042,172
Board-designated endowment	43,701,242	-	-	43,701,242
Total	<u>\$ 43,690,303</u>	<u>\$ 23,242,281</u>	<u>\$ 36,810,830</u>	<u>\$ 103,743,414</u>

Changes in endowment net assets for the year ended June 30, 2018:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 42,593,005	\$ 19,820,493	\$ 35,711,927	\$ 98,125,425
Total investment gains/losses and income	149,829	5,203,268	-	5,353,097
Contributions	-	-	1,078,113	1,078,113
Appropriation of endowment for expenditure	1,878,203	(1,878,203)	-	-
Expended appropriation	(1,878,203)	-	-	(1,878,203)
Transfer in	947,469	96,723	20,790	1,064,982
Endowment net assets, end of year	<u>\$ 43,690,303</u>	<u>\$ 23,242,281</u>	<u>\$ 36,810,830</u>	<u>\$ 103,743,414</u>

**Endowment Spending Policy**

The Board members of the University, in setting the endowment spending policy, considered the following factors: 1) preservation of asset values, 2) preservation of purchasing power, and 3) consistency of spending over time. The University's Board adopted a spending policy of 4.75% of the market value of the endowment pool for the year ended June 30, 2018 with a view toward balancing the need for expendable funds for University programs against the need to preserve the endowment against inflation. In order to achieve the objective of maintaining purchasing power, the endowment's annual rate of return must equal the annual distribution, plus inflation, plus management, custodial and administrative fees. This spending method protects the University's distribution, which is based on a twelve-quarter moving average, from market volatility. Distributions are provided to students for scholarships, various colleges, and programs in accordance with donor designations.

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**NOTE 6 - ENDOWMENTS - Continued**

**Return Objectives and Risk Parameters**

The University has adopted endowment investment and spending policies that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of endowment assets. Under this policy, the return objective for the endowment assets, measured over a full market cycle, shall be to maximize the return against a blended index, based on the endowment's target allocation applied to the appropriate individual benchmarks. The University expects its endowment funds over time to provide an average rate of return of equal to the Consumer Price Index ("CPI"), endowment management fees and annual spending policy. Actual returns in any given year may vary.

**Relationship of Spending Policy to Investment Objectives**

As discussed above, the University's Board of Trustees determines the method to be used to appropriate endowment funds for expenditure. In establishing this policy, the Board considered the expected long-term rate of return on its endowment. Accordingly, over the long term, the University expects that the endowment's investments will earn in excess of what is spent annually for the support of scholarships and programs. The expected average annual return is established by taking into consideration a 4.75% spending policy, the CPI, and endowment management fees.

**Endowment Funds with Deficits**

As a result of market activity, the fair value of certain donor-restricted endowments is less than the historical cost value of such funds by \$10,939 at June 30, 2018. These unrealized losses have been recorded as reductions in unrestricted net assets. Future market gains will be used to restore this deficiency in unrestricted net assets before any net appreciation above the historical cost value of such funds increases temporarily restricted net assets.

**Pooled Endowments**

Certain endowments are pooled where permitted by gift agreement and/or applicable government regulations. Pooled endowments and the allocation of the related investment income are accounted for on a unit market method. Each individual fund subscribes to or disposes of units on the basis of the value per unit on the preceding quarter valuation date.

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**NOTE 6 - ENDOWMENTS - Continued**

The following table presents a summary pertaining to the pooled endowments as of and for the year ended June 30, 2018:

Investments in pooled funds, at fair value	\$ 93,591,517
Unit fair value at end of year (rounded)	\$ 62.36
Total number of units	1,500,826
Net ordinary investment income per weighted-average unit	\$ 0.90

**NOTE 7 - PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment consist of the following at June 30, 2018:

Land	\$ 26,438,026
Buildings and improvements	163,099,463
Equipment	53,683,551
Asset retirement capitalized cost	633,365
Construction in progress	38,724,970
	<u>282,579,375</u>
Less: Accumulated depreciation	(105,651,591)
Property, plant and equipment, net	<u>\$ 176,927,784</u>

Depreciation expense for the year ended June 30, 2018 was \$7,977,980.

Capitalized interest for the year ended June 30, 2018 was \$1,291,085.

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**NOTE 8 - BONDS AND NOTES PAYABLE**

Bonds and notes payable include the following at June 30, 2018:

	Interest Rate	Maturity Dates	Total
a) Wells Fargo Bank ("CMFA") Nontaxable Series 2017A	3.83%	2047	\$ 116,920,000
b) Wells Fargo Bank ("CMFA") Taxable Series 2017B	2.90%	2021	6,330,000
c) Note payable – Weingart Foundation	0%	-	471,753
Subtotal			123,721,753
Add (less):			
Unamortized bond premium			12,031,728
Unamortized bond discount			(593,405)
Unamortized bond issuance costs			(814,654)
Total bonds payable, net			\$ 134,345,422

Principal payments on the obligations for each of the next five fiscal years, excluding the note payable to the Weingart Foundation (the "Foundation"), are as follows:

2019	\$	4,180,000
2020		4,270,000
2021		4,410,000
2022		4,620,000
2023		4,745,000
2024 and thereafter		101,025,000
Total	\$	123,250,000

The CMFA 2015A and 2010A bonds were refinanced to the CMFA 2017 A & B Bond issue. The CMFA 2010A and CMFA 2015 bonds were collateralized by parcels of land, and had various debt covenants. The CMFA 2017 A & B bonds are unsecured and have no financial debt covenants.

In addition to refinancing prior bonds, the CMFA 2017 A & B bonds, provided an additional \$42,000,000 of funds. The funds were mostly utilized toward the construction of a new residence and dining hall.

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**NOTE 8 - BONDS AND NOTES PAYABLE – Continued**

The note payable - Weingart Foundation represents a non-interest-bearing loan due to the Weingart Foundation. The University is required to use the funds to make non-interest-bearing loans to qualified students. The funds are repayable to the Foundation three years after notice, which cannot be given earlier than three years from the date of the original loan. Currently, no notice has been given by the Foundation to the University.

**NOTE 9 - LINE OF CREDIT**

The University has a \$500,000 line of credit bearing interest at the bank’s prime interest rate (4.25% at June 30, 2018), expiring February 15, 2019. As of June 30, 2018, there were no outstanding borrowings on this line of credit.

**NOTE 10 - NET ASSETS**

The classifications of restricted net assets at June 30, 2018 are as follows:

**Temporarily restricted**

Annuity and life income agreements restricted for future operations	\$ 2,642,446
Scholarship and grants	4,491,629
Temporarily restricted endowment funds	23,242,281
Pledges and other restricted gifts	14,140,999
Total temporarily restricted	<u>\$ 44,517,355</u>

**Permanently restricted**

Endowment to support University programs	\$ 36,810,830
Annuity and life income agreements restricted for future endowment	690,931
Revolving student loans	3,324,361
Total permanently restricted	<u>\$ 40,826,122</u>

**NOTE 11 - FUNDRAISING EXPENSES**

For the year ended June 30, 2018, the University incurred fundraising expenses of approximately \$4,544,000 which are included in institutional support in the accompanying statement of activities.

**NOTE 12 - EMPLOYEE BENEFIT PLANS**

The University participates in two defined contribution retirement plans that provide retirement benefits for employees. The University and plan participants make contributions to purchase individual, fixed or variable annuities equivalent to the retirement benefits earned. The plans require

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**NOTE 12 - EMPLOYEE BENEFIT PLANS - Continued**

a 5% contribution by the participants and a 10% contribution by the University. University vesting provisions are full and non-forfeitable upon completion of three years of service. University contributions related to the plans were \$5,774,799 for the year ended June 30, 2018.

**NOTE 13 - COMMITMENTS AND CONTINGENCIES**

The University leases certain facilities under lease arrangements for use in its educational programs. Minimum annual lease payments for non-cancelable operating leases are as follows:

For the year ending June 30,	
2019	\$ 2,619,118
2020	1,730,829
2021	1,375,297
2022	1,404,546
2023	1,229,252
Thereafter	<u>2,404,324</u>
Total	<u>\$ 10,763,366</u>

Leases on facilities contain renewal options and rent escalation clauses based on the Consumer Price Index. Rental expense for operating leases was approximately \$2,509,000 for the year ended June 30, 2018.

In the normal course of operations, the University is named as a defendant in lawsuits and is subject to periodic examinations by regulatory agencies. After consultation with legal counsel, management is of the opinion that liabilities, if any, arising from such litigation and examinations would not have a material effect on the University's financial position.

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

**NOTE 14 - SUBSEQUENT EVENTS**

The University has performed an evaluation of subsequent events through November 16, 2018, which is the date the financial statements were available to be issued.