Grant Thornton

Financial Statements and Report of Independent Certified Public Accountants

UNIVERSITY OF LA VERNE

June 30, 2016 (with comparative summarized financial information for June 30, 2015)

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Report of Independent Certified Public Accountants

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, 2016, 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, 2016, 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 2015 summarized comparative information

We have previously audited the University's 2015 financial statements (not presented herein), and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 12, 2015. In our opinion, the accompanying comparative summarized financial information as of and for the year ended June 30, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Grant Thornton LLP

Los Angeles, California
November 11, 2016

University of La Verne

STATEMENT OF FINANCIAL POSITION

As of June 30, 2016

(With comparative summarized financial information at June 30, 2015)

	2016	2015
Assets		
Cash and cash equivalents	$ 36,043,406	$ 44,620,811
Cash whose use is limited	9,993,685	15,153,117
Accounts and notes receivable, net	7,203,656	6,746,701
Pledges receivable, net	1,814,493	2,046,556
Prepaid expenses and other assets	4,652,543	4,106,690
Investments	122,142,404	104,643,538
Property, plant and equipment, net	149,510,975	137,231,682
Total assets	$ 331,361,162	$ 314,549,095
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued liabilities	$ 10,657,184	$ 10,189,608
Student deposits and deferred revenues	12,294,786	11,166,056
Actuarial liability for annuity obligations	3,430,613	3,544,073
Bonds and notes payable	95,035,920	98,413,457
Federal student loan funds	2,970,172	2,943,680
Total liabilities	124,388,675	126,256,874
Net assets		
Unrestricted		
Available for operations	23,181,350	20,102,789
Designated for		
Funds functioning as endowment	38,497,508	35,497,508
Facilities and equipment	92,445,948	88,618,182
Total unrestricted	154,124,806	144,218,479
Temporarily restricted	16,580,330	19,200,729
Permanently restricted	36,267,351	24,873,013
Total net assets	206,972,487	188,292,221
Total liabilities and net assets	$ 331,361,162	$ 314,549,095

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

University of La Verne

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2016
(With comparative summarized financial information for the year ended June 30, 2015)

	2016				2015
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Operating activities					
Revenues					
Student tuition and fees	$ 187,496,710	$ -	$ -	$ 187,496,710	$ 175,733,452
Less: Student financial aid	(49,578,274)	-	-	(49,578,274)	(43,215,890)
Net student tuition and fees	137,918,436	-	-	137,918,436	132,517,562
Private gifts and grants	1,926,586	1,180,093	11,270,339	14,377,018	4,862,548
Government grants	1,880,783	-	-	1,880,783	2,001,859
Sponsored programs	148,723	-	-	148,723	145,250
Investment income	825,492	1,072,117	-	1,897,609	2,037,062
Auxiliary enterprises	10,430,998	-	-	10,430,998	10,112,486
Annuity and trust gifts	-	674,426	153,539	827,965	53,396
Other	1,628,415	(305)	-	1,628,110	1,225,252
Net assets released from restriction	(95,513)	95,513	-	-	-
Total revenues	154,663,920	3,021,844	11,423,878	169,109,642	152,955,415
Expenses					
Instruction	62,952,408	-	-	62,952,408	60,513,366
Academic support	16,090,059	-	-	16,090,059	16,526,428
Student services	21,058,123	-	-	21,058,123	20,989,258
Institutional support	36,088,176	-	-	36,088,176	34,833,513
Auxiliary enterprises	7,037,111	-	-	7,037,111	7,088,512
Total expenses	143,225,877	-	-	143,225,877	139,951,077
Increase in net assets from operating activities	11,438,043	3,021,844	11,423,878	25,883,765	13,004,338
Nonoperating activities					
Net gains (losses) on investments	843,580	(5,137,047)	-	(4,293,467)	470,471
Net gains (losses) on disposal of assets	(2,029,068)	-	-	(2,029,068)	-
Net change in actuarial obligations	-	(505,196)	(29,540)	(534,736)	(238,755)
Net loss on refinance of bonds	(346,228)	-	-	(346,228)	-
(Decrease)/increase in net assets from non-operating activities	(1,531,716)	(5,642,243)	(29,540)	(7,203,499)	231,716
Changes in net assets	9,906,327	(2,620,399)	11,394,338	18,680,266	13,236,054
Net assets at beginning of year	144,218,479	19,200,729	24,873,013	188,292,221	175,056,167
Net assets at end of year	$ 154,124,806	$ 16,580,330	$ 36,267,351	$ 206,972,487	$ 188,292,221

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, 2016
(With comparative summarized financial information for the year ended June 30, 2015)

	2016	2015
Cash flows from operating activities		
Change in net assets	$ 18,680,266	$ 13,236,054
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Amortization expense	441,733	96,952
Bad debt expense	(71,711)	410,041
Loss on bond refinance	346,228	-
Depreciation	7,440,198	7,352,422
Loss on disposal of assets	2,029,068	-
Contributions of investments and property	(25,928)	(60,353)
Net realized and unrealized gain on investments	2,633,148	(2,274,149)
Adjustment of actuarial liabilities	304,825	(42,345)
Contributions restricted for long-term investment	(11,270,339)	(2,514,636)
Adjustment to cash surrender value - life insurance	(35,045)	(124,922)
Change in assets and liabilities, net of effects from noncash activities		
Accounts and other receivables	(411,933)	(221,683)
Pledges receivable, net	288,289	(813,793)
Prepaid expenses and other assets	(987,586)	583,317
Accounts payable and accrued liabilities	(619,318)	(2,697,934)
Student deposits and deferred revenues	1,128,730	(899,614)
Actuarial liability for annuity obligations	220,117	280,110
Net cash provided by operating activities	20,090,742	12,309,467
Cash flows from investing activities		
Purchases of property, plant and equipment	(20,947,693)	(4,420,526)
Purchases of investments	(37,977,343)	(19,850,060)
Proceeds from sales and maturity of investments	17,775,726	12,532,417
Net change in student notes receivable	(29,537)	131,391
Net cash used in investing activities	(41,178,847)	(11,606,778)

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, 2016
(With comparative summarized financial information for the year ended June 30, 2015)

	2016	2015
Cash flows from financing activities		
Proceeds from contributions for investment in endowment	11,270,339	2,514,636
Proceeds from issuance of WFB 2015 bond, net of issuance costs	18,375,000	-
Investment income on annuity obligations	70,376	75,576
Extinguished bonds	(17,930,000)	-
Payments on life income and annuity obligations	(638,402)	(490,377)
Payments on bonds and notes payable	(3,822,537)	(3,695,135)
Change in federal student loan funds	26,492	36,374
Use of cash whose use is limited	5,159,432	553,333
Net cash provided by (used in) financing activities	12,510,700	(1,005,593)
Net decrease in cash and cash equivalents	(8,577,405)	(302,904)
Cash and cash equivalents at beginning of year	44,620,811	44,923,715
Cash and cash equivalents at end of year	$ 36,043,406	$ 44,620,811
Supplementary cash flow information		
Cash paid for interest	$ 4,612,952	$ 4,960,687
Non cash gifts - investments and property received	$ 60,200	$ 60,353
Accounts payable related to acquisition of fixed assets	$ 740,666	$ 1,210,852

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

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, 2015, 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.

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.

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.

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, 2016, $661,834 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. However, the cost of managing these contracts and agreements are included in unrestricted expenses.

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.

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 has been recognized by the Internal Revenue Service and the Franchise Tax Board as a nonprofit corporation exempt from federal and state income tax on its income, other than unrelated business income, under Section 501(c)(3) of the Internal Revenue Code and section 23701d of the California Revenue and Taxation Code, respectively.

Accounting Standards Codification ("ASC") Topic No. 740, *Accounting for Uncertainty in Income Taxes*, requires entities to determine whether it is "more likely than not" that a tax position will be sustained upon examination by the appropriate taxing authorities. An uncertain tax position will not be recognized if it has less than a 50% likelihood of being sustained. The University believes that there are no uncertain tax positions within its financial statements. There have been no material changes in unrecognized benefits as of June 30, 2016, nor are any anticipated in the 12 months following June 30, 2016. There have been no related tax penalties or interest, which would be classified as tax expense in the statement of activities.

The open federal and state tax years are as follows:

Jurisdiction	Open Tax Years
Federal – US	2011 through 2015
California	2010 through 2015

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.

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

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

NOTE 3 - ACCOUNTS AND NOTES RECEIVABLE

Accounts and notes receivable at June 30, 2016 consists of the following:

a) Student accounts receivable, net of allowance for doubtful accounts of $322,707	$	1,436,866
b) Student notes receivable, net of allowance for doubtful accounts of $80,000		4,877,556
c) Other receivables, net of allowance for doubtful accounts of $2,695,176		889,234
Total accounts and notes receivable	$	7,203,656

NOTE 3 - ACCOUNTS AND NOTES RECEIVABLE - Continued

Long-term notes receivables at June 30, 2016 consist of the following:

	Notes Receivables	Allowance for Doubtful Accounts	Net
Perkins loans	$ 2,351,476	$ -	$ 2,351,476
Other student loans	2,606,080	80,000	2,526,080
Total	$ 4,957,556	$ 80,000	$ 4,877,556

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 $8,705 bringing the accumulated total of defaulted loans since the program inception to $717,521 as of June 30, 2016.

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, 2016:

	Current	30-59 Days Past Due	60-89 Days Past Due	> 90 Days Past Due	Total Past Due	Total Notes Receivables
Perkins loans	$ 1,917,011	$ 2,004	$ 4,104	$ 428,357	$ 434,465	$ 2,351,476
Other student loans	1,884,519	1,775	885	718,901	721,561	2,606,080
Total	$ 3,801,530	$ 3,779	$ 4,989	$ 1,147,258	$ 1,156,026	$ 4,957,556

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, 2016 are expected to be collected as follows:

Due in less than one year	$ 462,831
Due in one to five years	1,845,000
Due in more than five years	20,000
Total pledges receivable	$ 2,327,831

Pledges receivable at June 30, 2016 are intended for the following uses:

Facilities and equipment	$ 440,000
Endowment	1,265,000
Restricted	270,000
Unrestricted	352,831
Less: Allowance for doubtful pledges	(348,954)
Discount	(164,384)
Pledges receivable, net	$ 1,814,493

NOTE 5 - INVESTMENTS

Investments consisted of the following at June 30, 2016, stated at fair value:

	Fair Value
Short-term investments	$ 1,233,549
Mutual funds	38,465,608
Equities	10,917,190
Fixed income	57,568,394
Alternative investments	10,931,404
Insurance policies	2,703,154
Total	$ 121,819,299

In addition to the investments carried at fair value, the University holds $323,105 in real estate investments, which are carried at cost.

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.

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. Included in Level 1 investments is approximately $2.2 million of cash in transit.

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, and for these, the Net Asset Value ("NAV") as a practical expedient has been used.

Fair Value Hierarchy of Investments

The following table presents the University's fair value hierarchy levels as of June 30, 2016:

	Level I	Level II	Level III	Total
Equity securities - U.S.	$ 8,378,392	$ -	$ 35,800	$ 8,414,192
Equity securities - non-U.S.	2,502,998	-	-	2,502,998
Fixed income securities - U.S.	-	57,568,394	-	57,568,394
Cash equivalents	-	1,233,549	-	1,233,549
Mutual funds	38,465,608	-	-	38,465,608
Hedge fund - fund of funds	-	-	10,931,404	10,931,404
Contributed life insurance	-	-	2,703,154	2,703,154
Balance at June 30, 2016	$ 49,346,998	$ 58,801,943	$ 13,670,358	$ 121,819,299

NOTE 5 - INVESTMENTS - Continued

Fair Value Hierarchy of Investments (continued)

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.

Cash equivalents – Cash equivalents include cash deposits in short-term money market funds which seek to provide current income while maintaining liquidity and a stable price per share. Cash equivalents are classified as Level II based on quotes of similar assets.

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. Pricing inputs are unobservable for these investments, and there is not an active trading market. As such, they are classified as Level III.

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.

NOTE 5 - INVESTMENTS - Continued

Fair Value Hierarchy of Investments (continued)

The following table summarizes the University's Level III reconciliation as of June 30, 2016:

	June 30, 2015 Beginning Balance	Unrealized Gain	Gross Sales	Gross Purchases	June 30, 2016 Ending Balance
Stocks-private equity	$ 35,800	$ -	$ -	$ -	$ 35,800
Hedge fund - fund of funds	9,707,781	(776,377)	-	2,000,000	10,931,404
Contributed life insurance	2,664,479	38,675	-	-	2,703,154
	$ 12,408,060	$ (737,702)	$ -	$ 2,000,000	$ 13,670,358

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:

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	$ 10,931,404	2	$ -	Not Applicable	Ranging from no restrictions to 2-Year rolling liquidity with 95 Days notice and a first available date: April 1, 2018
Contributed Life Insurance	Employing Directional, Defensive, and Other Strategies. Assets Consist of U.S. and Foreign Assets and are Comprised of Equities and Fixed Income	2,703,154	19	-	Not Applicable	Face value benefits are distributed upon the maturity of the policies. Cash surrender values are available upon request.
Stocks-Private Equity		35,800	1	-	Not Applicable	None
Total		$ 13,670,358				

NOTE 6 - ENDOWMENTS

The University's endowment consists of approximately 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 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
(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, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment	$ (389,712)	$ 8,446,192	$ 32,252,059	$ 40,308,539
Board-designated endowment	38,497,508	-	-	38,497,508
Total	$ 38,107,796	$ 8,446,192	$ 32,252,059	$ 78,806,047

NOTE 6 - ENDOWMENTS - Continued

Changes in endowment net assets for the year ended June 30, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 35,232,000	$ 12,742,716	$ 20,828,181	$ 68,802,897
Total investment gains (losses) and income	(124,204)	(3,219,184)	-	(3,343,388)
Contributions	-	-	11,423,878	11,423,878
Appropriation of endowment for expenditure	1,077,340	(1,077,340)	-	-
Expended appropriation	(1,077,340)	-	-	(1,077,340)
Transfer in	3,000,000	-	-	3,000,000
Endowment net assets, end of year	$ 38,107,796	$ 8,446,192	$ 32,252,059	$ 78,806,047

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, 2016 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.

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.

NOTE 6 - ENDOWMENTS - Continued

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 approximately $389,712 at June 30, 2016. 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.

The following table presents a summary pertaining to the pooled endowments as of and for the year ended June 30, 2016:

Investments in pooled funds, at fair value	$	69,290,728
Unit fair value at end of year (rounded)	$	55.00
Total number of units		1,259,831
Net ordinary investment income per weighted-average unit	$	0.62

NOTE 7 - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following at June 30, 2016:

Land	$ 26,790,899
Buildings and improvements	147,201,962
Equipment	50,032,862
Asset retirement capitalized cost	590,162
Construction in progress	15,081,283
	239,697,168
Less: Accumulated depreciation	(90,186,193)
Property, plant and equipment, net	$ 149,510,975

Depreciation expense for the year ended June 30, 2016 was $7,440,198.

Capitalized interest for the year ended June 30, 2016 was $164,619.

NOTE 8 - BONDS AND NOTES PAYABLE

Bonds and notes payable include the following at June 30, 2016:

	Interest Rate	Maturity Dates	Total
a) California Municipal Finance Authority (“CMFA”) Revenue Bonds Nontaxable Series 2010A	4.75% - 6.40%	2040	$ 64,060,000
b) Western Alliance ("CMFA") Nontaxable Note Payable	3.98% - 5.00%	2035	18,375,000
c) Wells Fargo Bank ("CMFA") Nontaxable Note Payable	2.94%	2023	11,825,000
d) Note payable – Davenport Dining Hall	0%	2022	304,167
e) Note payable – Weingart Foundation	0%	-	471,753
Total			$ 95,035,920

NOTE 8 - BONDS AND NOTES PAYABLE - Continued

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:

2017	$	3,854,167
2018		3,980,000
2019		4,120,000
2020		4,265,000
2021		4,450,000
2022 and thereafter		73,895,000
Total	$	94,564,167

The fair value of the University's bonds payable was approximately $92,216,183 at June 30, 2016. The fair value estimate is based upon the discounted amount of future cash outflows utilizing current rates offered for debt of similar maturities (Level II). The notes payable are carried at cost.

The 2005A Bonds were refinanced to the 2015 Bond. The CMFA 2010A and 2015 bonds, and the Wells Fargo Bank loans contain similar affirmative covenants. The CMFA 2010A and CMFA 2015 bonds are collateralized by parcels of land. Additionally, the CMFA 2010A have covenants relating to maintenance of the University pledged property. The University was in compliance with its debt covenants for the year ended June 30, 2016.

The note payable – Davenport Dining Hall represents a non-interest-bearing loan that was used to fund capital improvements in the University's premises to facilitate the dining service program. The loan is repayable in 120 equal monthly installments of $4,167 from July 2012 to June 2022.

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.

On July 31, 2015, the University entered into a refinancing agreement for the refunding of the 2005A Bond Series for a total principal of $18,475,000 in financing maturing on June 1, 2035 which bears an interest rate of 3.98%. The University pledged the Oaks Residence Hall for the bond. The new Private Placement 2015 Bond issuance requires interest payments semi-annually and principal payments annually.

NOTE 9 - LINE OF CREDIT

The University has a $500,000 line of credit bearing interest at the bank's prime interest rate (3.5% at June 30, 2016), expiring February 15, 2017. As of June 30, 2016, there were no outstanding borrowings on this line of credit.

NOTE 10 - NET ASSETS

The classifications of restricted net assets at June 30, 2016 are as follows:

Temporarily restricted		
Annuity and life income agreements restricted for future operations	$	2,154,599
Scholarship and grants		3,111,910
Temporarily restricted endowment funds		8,446,192
Pledges and other restricted gifts		2,867,629
Total temporarily restricted	$	16,580,330
Permanently restricted		
Endowment to support University programs	$	32,252,059
Annuity and life income agreements restricted for future endowment		690,931
Revolving student loans		3,324,361
Total permanently restricted	$	36,267,351

NOTE 11 - FUNDRAISING EXPENSES

For the year ended June 30, 2016, the University incurred fundraising expenses of approximately $3,520,835 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 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 $5,169,959 for the year ended June 30, 2016.

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,		
2017	$	1,859,516
2018		1,501,494
2019		1,080,380
2020		345,699
2021		-
Thereafter		-
Total	$	4,787,089

Leases on facilities contain renewal options and rent escalation clauses based on the Consumer Price Index. Rental expense for operating leases was approximately $2,227,253 for the year ended June 30, 2016.

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 11, 2016, which is the date the financial statements were available to be issued.