

FIELDING GRADUATE UNIVERSITY

Santa Barbara, California

FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended June 30, 2018 and 2017

FIELDING GRADUATE UNIVERSITY

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Fielding Graduate University
Santa Barbara, California

We have audited the accompanying financial statements of Fielding Graduate University (the "University"), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities and cash flows for the years 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 auditors' 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 entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the 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 Fielding Graduate University as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
October 18, 2018

FIELDING GRADUATE UNIVERSITY
STATEMENTS OF FINANCIAL POSITION
As of June 30, 2018 and 2017

	2018	2017
ASSETS		
Cash and cash equivalents	\$ 5,633,527	\$ 6,126,569
Cash held for restricted purposes	<u>576,051</u>	<u>591,102</u>
	<u>6,209,578</u>	<u>6,717,671</u>
Receivables		
Student accounts, net of allowance for doubtful accounts		
of \$121,000 in 2018 and \$126,000 in 2017	897,537	670,323
Contributions, net	665,682	667,608
Other	1,932	64,090
Prepaid expenses	400,549	610,552
Deposits and other assets	43,240	33,032
Investments		
Endowment	6,258,729	5,705,989
Other	<u>9,470,456</u>	<u>9,392,700</u>
	15,729,185	15,098,689
Property, plant and equipment, net	<u>5,154,072</u>	<u>5,214,507</u>
TOTAL ASSETS	<u>\$ 29,101,775</u>	<u>\$ 29,076,472</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 852,507	\$ 1,130,499
Deferred revenue	3,576,169	3,359,377
Long-term debt	<u>2,439,775</u>	<u>2,538,702</u>
Total Liabilities	<u>6,868,451</u>	<u>7,028,578</u>
NET ASSETS		
Unrestricted	17,385,425	17,541,580
Temporarily restricted	2,166,211	2,047,719
Permanently restricted	<u>2,681,688</u>	<u>2,458,595</u>
Total Net Assets	<u>22,233,324</u>	<u>22,047,894</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 29,101,775</u>	<u>\$ 29,076,472</u>

See accompanying notes to financial statements.

FIELDING GRADUATE UNIVERSITY

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2018
With Comparative Totals for 2017

	2018			2017 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenues, gains and other support				
Tuition	\$20,198,070	\$	\$	\$ 20,198,070
Student fees	407,742			542,714
Less: Scholarships and fellowships	(351,935)			(423,906)
Net tuition and fees	20,253,877			20,000,273
Contributions	36,252	144,333	170,268	533,376
Federal grants	501,259			515,329
Auxiliary	4,372			4,318
Other sources	4,478			2,513
Contract income				9,462
Investment earnings				
Dividends and interest	347,402	103,580		336,928
Realized and unrealized gain (loss) on investments, net	(42,247)	138,420	-	350,170
Transfers	21,105,393	386,333	170,268	21,661,994
Net assets released from restrictions	215,016	(52,825)	52,825	
Total revenues, gains and other support	21,320,409	118,492	223,093	21,752,369
Expenses				
Program expenses				
Instruction	9,627,531			10,121,188
Research	817,750			780,337
Academic support	2,372,582			2,146,255
Student services	3,122,868			3,010,214
Auxiliary	4,298			4,460
Support expenses				
Institutional support	5,531,535			5,321,544
Total expenses	21,476,564			21,383,998
Change in Net Assets	(156,155)	118,492	223,093	368,371
NET ASSETS - Beginning of Year	17,541,580	2,047,719	2,458,595	21,679,523
NET ASSETS - END OF YEAR	<u>\$ 17,385,425</u>	<u>\$ 2,166,211</u>	<u>\$ 2,681,688</u>	<u>\$ 22,047,894</u>

See accompanying notes to financial statements.

FIELDING GRADUATE UNIVERSITY

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other support				
Tuition	\$ 19,881,465	\$	\$	\$ 19,881,465
Student fees	542,714			542,714
Less: Scholarships and fellowships	(423,906)			(423,906)
Net tuition and fees	20,000,273			20,000,273
Contributions	36,062	185,799	311,515	533,376
Federal grants	515,329			515,329
Auxiliary	4,318			4,318
Other sources	2,513			2,513
Contract income	9,462			9,462
Investment earnings				
Dividends and interest	274,813	62,115		336,928
Realized and unrealized gain on investments, net	77,867	272,303		350,170
	20,920,637	520,217	311,515	21,752,369
Transfers		6,860	(6,860)	
Net assets released from restrictions	194,650	(194,650)		
Total revenues, gains and other support	21,115,287	332,427	304,655	21,752,369
Expenses				
Program expenses				
Instruction	10,121,188			10,121,188
Research	780,337			780,337
Academic support	2,146,255			2,146,255
Student services	3,010,214			3,010,214
Auxiliary	4,460			4,460
Support expenses				
Institutional support	5,321,544			5,321,544
Total expenses	21,383,998			21,383,998
Change in Net Assets	(268,711)	332,427	304,655	368,371
NET ASSETS - Beginning of Year	17,810,291	1,715,292	2,153,940	21,679,523
NET ASSETS - END OF YEAR	\$ 17,541,580	\$ 2,047,719	\$ 2,458,595	\$ 22,047,894

See accompanying notes to financial statements.

FIELDING GRADUATE UNIVERSITY

STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 185,430	\$ 368,371
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	319,546	342,682
Gain on investments, net	(96,173)	(350,170)
Change in allowance for doubtful accounts	(5,228)	(22,038)
Changes in assets and liabilities		
Student accounts receivable	(221,986)	135,303
Contributions receivable for operations	(2,824)	6,959
Other receivables	62,158	(44,134)
Prepaid expenses	210,003	15,880
Deposits and other	(10,208)	(5,885)
Accounts payable (operating) and accrued liabilities	(277,992)	206,363
Deferred revenue	216,792	(49,520)
Contributions restricted for permanent endowments	<u>(170,268)</u>	<u>(311,515)</u>
Net Cash Flows from Operating Activities	<u>209,250</u>	<u>292,296</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(5,395,467)	(9,839,769)
Proceeds from sale of investments	4,861,143	9,242,918
Purchases of property, plant, and equipment	<u>(259,111)</u>	<u>(55,540)</u>
Net Cash Flows from Investing Activities	<u>(793,435)</u>	<u>(652,391)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of principal on indebtedness	(98,927)	(98,697)
Contributions received restricted for permanent endowments	<u>175,018</u>	<u>364,767</u>
Net Cash Flows from Financing Activities	<u>76,091</u>	<u>266,070</u>
Change in Cash and Cash Equivalents	<u>(508,094)</u>	<u>(94,025)</u>
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>6,717,671</u>	<u>6,811,696</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 6,209,577</u>	<u>\$ 6,717,671</u>
Supplemental disclosure of cash flow information		
Interest paid	\$ 93,221	\$ 87,624

See accompanying notes to financial statements.

FIELDING GRADUATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended June 30, 2018 and 2017

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Fielding Graduate University (the "University"), a California not-for-profit corporation, is an institution of higher education established in 1974, with headquarters located in Santa Barbara, California. The University is regionally accredited by the WASC Senior College and University Commission (WSCUC). The University offers a distributed learning model designed specifically for mid-career adults leading to doctoral and master's degrees and graduate certificates through two schools: Psychology and Leadership Studies. The University has students throughout the United States and in several foreign countries. The accounting policies of the University reflect practices common to universities and conform to accounting principles generally accepted in the United States of America. The more significant accounting policies are summarized below:

Net Asset Classifications - For the purposes of financial reporting, the University classifies resources into three net asset categories pursuant to any donor-imposed restrictions and applicable law. Accordingly, the net assets of the University are classified in the accompanying financial statements in the categories that follow:

Unrestricted Net Assets - Net assets not subject to donor-imposed stipulations.

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

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

Releases from Restrictions - Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed and the law allows the release of the restriction) are reported on the statement of activities as net assets released from restrictions. Occasionally donor restrictions related to net assets may be clarified or changed, at which time they are reflected as reclassifications of prior year net assets on the statement of activities.

Revenue Recognition - The timing and classification of revenue are summarized below:

Tuition and Fees and Auxiliary Revenue - Revenues from tuition and auxiliary are recognized in the period the goods or services are provided as increases in unrestricted net assets. Financial assistance in the form of scholarships and grants that cover a portion of tuition and other costs is reflected as a reduction of tuition and fees revenues.

Contribution Revenue - Contributions are recognized as revenues when the donor's commitments are received, as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Gifts of assets other than cash are recorded at their estimated fair value at the date of gift.

Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues of the temporarily restricted net asset class, and a release to unrestricted net assets is made to reflect the expiration of such restrictions.

Auxiliary - Auxiliary revenue consists of the sale of promotional items, school supplies and computer software through the University's student store.

FIELDING GRADUATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended June 30, 2018 and 2017

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment Gains and Losses - Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

Income and net gains on investments of endowment and similar funds are reported in the statement of activities as follows:

- > as increases in unrestricted net assets for board-designated endowment funds and to restore donor-restricted endowment funds with deficiencies, if any;
- > as increases in temporarily restricted net assets in all other cases.

Losses from investments on donor-restricted endowment funds are reported as decreases in temporarily restricted net assets to the extent of the prior accumulated earnings of each individual endowment fund, with the remainder reflected as reductions to unrestricted net assets.

Cash Equivalents - The University considers all highly liquid investments, except for those held for long-term investment, with a maturity of three months or less when purchased to be cash equivalents. Cash held for donor-restricted purposes are shown separately on the statements of financial position.

Receivables - Student accounts receivable are carried at the unpaid balance of the original amount billed to students less an estimate made for doubtful accounts based on a review of all outstanding amounts. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Student accounts receivable are written off when deemed uncollectible. Recoveries of student accounts previously written off are recorded when received. Receivables are generally unsecured.

Receivables are recorded when billed. Advance payments and unearned receivables are recorded as deferred revenue.

A student account receivable is considered to be delinquent if not paid by the due date. A monthly fee is charged on delinquent accounts.

Inventories - Student store inventories are valued at cost using the first-in, first-out method. All other inventories are valued at the lower of cost (first-in, first-out) or market.

Property, Plant and Equipment - Physical plant assets are stated at cost less accumulated depreciation. The University depreciates its assets on the straight-line basis over estimated useful lives as follows: buildings 40 years, improvements 5 years to life of the building, equipment 5 to 10 years and software 3 to 5 years. Normal repair and maintenance expenses are charged to operations as incurred. The University capitalizes additions to buildings and equipment in excess of \$5,000 and software in excess of \$25,000.

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

FIELDING GRADUATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended June 30, 2018 and 2017

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Revenue - Certain revenue related to education programs and prepaid tuition are deferred and recognized as revenue in the same period expenses are recognized. Students are generally billed for courses and programs prior to start of the course or program.

Fund Raising and Advertising Expenses - Fund raising expenses totaled approximately \$231,000 and \$236,000 for the years ended June 30, 2018 and 2017, respectively. Advertising expenses totaled approximately \$511,000 and \$364,000 for the years ended June 30, 2018 and 2017, respectively. The University expenses advertising costs at the time incurred.

Functional Allocation of Expenses - The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain expenses have been allocated among the programs and supporting services benefited.

Retirement Plan - Retirement benefits are provided for the University's eligible staff through a defined contribution 403(b) plan for which the University and JPMorgan Chase Bank are the trustees. Teachers Insurance and Annuity Association (TIAA) is the custodian. Under this arrangement, the University and plan participants make contributions to the plan. The University's share of the cost of these benefits was approximately \$728,000 and \$883,000 in 2018 and 2017, respectively.

Income Tax Status - The Internal Revenue Service has determined that the University is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. Accordingly, the University is not subject to federal income taxes except to the extent it derives income from certain activities not substantially related to its tax-exempt purposes (unrelated trade or business activities). The University is also exempt from state income tax. At June 30, 2018 and 2017, the University had no obligation for unrelated business income tax.

The University follows the accounting standards for contingencies in evaluating uncertain tax positions. This guidance prescribes recognition threshold principles for the financial statement recognition of tax positions taken or expected to be taken on a tax return that are not certain to be realized. No liability has been recognized by the University for uncertain tax positions as of June 30, 2018 and 2017. The University's tax returns are subject to review and examination by federal and state authorities.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities 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.

Scholarships and Grants - Scholarships and grants are offered by the University to attract and retain students. The University offers institutional grants to students in the form of merit-based scholarships and need-based grants at the University's discretion.

Grants to Specified Students - Amounts received from federal agencies designated for the benefit of specified students are considered agency transactions and, therefore, are not reflected as revenues and expenses of the University. The amounts of such loans and grants were approximately \$18,408,000 and \$17,287,000, respectively, for the years ended June 30, 2018 and 2017.

Federal Grants - Revenues from other government grants are recognized as they are earned in accordance with grant agreements. Expenses incurred before grant reimbursements are received are recorded as receivables. The amount of Federal grant revenue was approximately \$501,000 and \$515,000, respectively for the years ended June 30, 2018 and 2017.

FIELDING GRADUATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

As of and for the Years Ended June 30, 2018 and 2017

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Accounting Pronouncements - In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers*. This new accounting guidance outlines a single comprehensive model for entities to use in accounting for revenue from contracts with customers. ASU 2014-09 is effective for fiscal years beginning after December 15, 2018 (fiscal year 2020). Early application is permitted. The University is assessing the impact this new standard will have on its financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases*. ASU 2016-02 was issued to increase transparency and comparability among entities. Lessees will need to recognize nearly all lease transactions (other than leases that meet the definition of a short-term lease) on the statement of financial position as a lease liability and a right-of-use asset (as defined). Lessor accounting under the new guidance will be similar to the current model. ASU 2016-02 is effective for fiscal years beginning after December 15, 2019 (fiscal year 2021). Early application is permitted. Upon adoption, lessees and lessors will be required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach, which includes a number of optional practical expedients that entities may elect to apply. The University is assessing the impact this standard will have on its financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The new guidance improves and simplifies the current net asset classification requirements and information presented in financial statements and notes that is useful in assessing a not-for-profit's liquidity, financial performance and cash flows. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017 (fiscal year 2019). ASU 2016-14 is to be applied retroactively with transition provisions. The University is assessing the impact this standard will have on its financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. The amendments in this update require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period amounts shown on the combining statement of cash flows. ASU 2016-18 is effective for non-public entities for fiscal years beginning after December 15, 2018 (fiscal year 2020), with early adoption permitted. ASU 2016-18 is to be applied retroactively with transition provisions. The University is assessing the impact this standard will have on its financial statements.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The new guidance is intended to clarify and improve accounting guidance for contributions received and contributions made. The amendments in this ASU should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. ASU 2018-08 is effective for non-public entities for fiscal years beginning after December 15, 2018 (fiscal year 2020) but is expected to be adopted in the same year as ASU 2014-09 noted previously. The University is assessing the impact this standard will have on its financial statements.

Reclassifications - Certain amounts appearing in the 2017 financial statements have been reclassified to conform to the 2018 presentation. The reclassifications have no effect on the reported amounts of total net assets or change in total net assets.

FIELDING GRADUATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended June 30, 2018 and 2017

NOTE 2 – NET ASSETS

The University's unrestricted net assets were allocated as follows at June 30:

	<u>2018</u>	<u>2017</u>
Operations	\$ 12,869,800	\$ 13,220,133
Quasi endowment funds	2,652,563	2,458,385
Designated for purchase of administrative facilities	<u>1,863,062</u>	<u>1,863,062</u>
Total	<u>\$ 17,385,425</u>	<u>\$ 17,541,580</u>

Temporarily restricted net assets consist of the following at June 30:

Gifts and other unexpended revenues and gains available for:		
Scholarships and awards	\$ 553,563	\$ 506,367
Education and research programs	<u>989,466</u>	<u>920,994</u>
	1,543,029	1,427,361
Contributions receivable	<u>623,182</u>	<u>620,358</u>
Total	<u>\$ 2,166,211</u>	<u>\$ 2,047,719</u>

Permanently restricted net assets consist of the following at June 30:

General endowment funds	\$ 822,033	\$ 822,033
Scholarship	1,136,029	908,616
Education and research programs	<u>681,126</u>	<u>680,696</u>
Subtotal	2,639,188	2,411,345
Contributions receivable	<u>42,500</u>	<u>47,250</u>
Total	<u>\$ 2,681,688</u>	<u>\$ 2,458,595</u>

NOTE 3 - NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of events specified by the donors during the years ended June 30, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Scholarships	\$ 70,329	\$ 81,070
Education and research programs	99,279	67,820
Time restrictions	<u>45,408</u>	<u>45,760</u>
Total	<u>\$ 215,016</u>	<u>\$ 194,650</u>

FIELDING GRADUATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended June 30, 2018 and 2017

NOTE 4 - CONTRIBUTIONS RECEIVABLE, NET

Contributions receivable include the following unconditional promises to give at June 30:

	<u>2018</u>	<u>2017</u>
Less than one year	\$ 20,574	\$ 40,490
One to five years	10,000	45,000
More than five years	<u>1,028,250</u>	<u>1,000,000</u>
Gross contributions receivable	1,058,824	1,085,490
Less: Unamortized discount	<u>(393,142)</u>	<u>(417,882)</u>
Net contributions receivable	<u>\$ 665,682</u>	<u>\$ 667,608</u>

Contributions receivable have the following restrictions at June 30:

Operations in future periods	\$ 606,858	\$ 582,118
Education and research programs	<u>58,824</u>	<u>85,490</u>
Total	<u>\$ 665,682</u>	<u>\$ 667,608</u>

Significant promises due in more than one year were discounted at historical rates of approximately 4% at June 30, 2018 and 2017. Smaller promises due in more than one year were not discounted.

As of June 30, 2018 and 2017, the portion of the University's contributions receivable due from its largest donor was 91% and 87%, respectively.

NOTE 5 - PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment consisted of the following as of June 30:

	<u>2018</u>	<u>2017</u>
Land	\$ 2,603,972	\$ 2,603,972
Buildings and improvements	4,324,953	4,290,756
Automobiles	23,578	23,578
Office equipment	650,260	650,260
Computer equipment	604,658	1,140,452
Computer software	<u>2,734,784</u>	<u>2,837,411</u>
	10,942,205	11,546,429
Less: Accumulated depreciation	<u>(5,788,133)</u>	<u>(6,331,922)</u>
Total property, plant, and equipment	<u>\$ 5,154,072</u>	<u>\$ 5,214,507</u>

Depreciation expense was \$319,546 and \$342,682 for the years ended June 30, 2018 and 2017, respectively.

Certain property has been pledged as collateral for the University's long-term debt. See Note 9 for more information.

FIELDING GRADUATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended June 30, 2018 and 2017

NOTE 6 - INVESTMENTS

The following summarizes the University's investments at June 30:

	2018	2017
Investments		
Cash and cash equivalents	\$ 1,975	\$ 3,005
Money market funds	11,697	24,793
Certificates of deposit	370,483	503,927
Investments at cost	384,155	531,725
Mutual funds	6,291,640	5,731,560
Fixed income securities	9,053,390	8,835,404
Investments at fair value (see Note 7)	15,345,030	14,566,964
Total Investments	<u>\$ 15,729,185</u>	<u>\$ 15,098,689</u>

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

Certain investments have been pledged as collateral for the University's long-term debt. See Note 9 for more information.

NOTE 7 - FAIR VALUE MEASUREMENTS

Fair Value Hierarchy - Fair value is defined in the accounting guidance as the exchange price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the assets or liability in an orderly transaction between market participants at the measurement date. Under this guidance, a three-level hierarchy is used for fair value measurements which is based on the transparency of information, such as the pricing source, used in the valuation of an asset or liability as of the measurement date.

Financial instruments measured and reported at fair value are classified and disclosed in one of the following three categories.

- Level 1 - Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity can access at the measurement date.
- Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. This includes quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or market-corroborated inputs.
- Level 3 - Inputs are unobservable for the asset or liability. Unobservable inputs reflect the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk) using the best information available in the circumstances, which may include using the reporting entity's own data.

FIELDING GRADUATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2018 and 2017

NOTE 7 - FAIR VALUE MEASUREMENTS (Continued)

Valuation Techniques and Inputs

Level 1 - Level 1 assets include mutual funds for which quoted process are readily available.

Level 2 - Level 2 assets include investments in fixed income securities, comprised of corporate and government obligations. The fair values are estimated using Level 2 inputs based on multiple sources of information, which may include market data and/or quoted market prices from either markets that are not active or are for the same or similar assets in active markets.

There have been no changes in the techniques and inputs used at June 30, 2018 and 2017.

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

The following table presents information about the University's assets measured at fair value on a recurring basis as of June 30, 2018 based upon the three-tier hierarchy:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
ASSETS				
Mutual funds	\$ 6,291,640	\$ 6,291,640	\$	\$
Fixed income securities				
Government obligations	4,103,867		4,103,867	
Corporate fixed income	<u>4,949,523</u>		<u>4,949,523</u>	
Total	<u>\$ 15,345,030</u>	<u>\$ 6,291,640</u>	<u>\$ 9,053,390</u>	<u>\$</u>

The following table presents information about the University's assets measured at fair value on a recurring basis as of June 30, 2017 based upon the three-tier hierarchy:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
ASSETS				
Mutual funds	\$ 5,731,560	\$ 5,731,560	\$	\$
Fixed income securities				
Government obligations	3,701,228		3,701,228	
Corporate fixed income	<u>5,134,176</u>		<u>5,134,176</u>	
Total	<u>\$ 14,566,964</u>	<u>\$ 5,731,560</u>	<u>\$ 8,835,404</u>	<u>\$</u>

FIELDING GRADUATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2018 and 2017

NOTE 8 - ENDOWMENT

The University's endowment consists of approximately 25 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the governing board to function as endowments. As required by generally accepted accounting principles ("GAAP"), net assets associated with endowment funds, including funds designated by the governing board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law - The University's governing board has interpreted the California enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as allowing the University to appropriate for expenditure or accumulate so much of an endowment fund as the University determines is prudent for the uses, benefits, purposes and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument. The University's governing board has determined it is prudent to preserve the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. See Note 1 for further information on net asset classifications.

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

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

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$	\$ 1,006,103	\$ 2,681,688	\$ 3,687,791
Board-designated endowment funds	2,652,563			2,652,563
Total endowment net assets	\$ 2,652,563	\$ 1,006,103	\$ 2,681,688	\$ 6,340,354

Endowment net asset composition by type of fund consists of the following as of June 30, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$	\$ 841,944	\$ 2,458,595	\$ 3,300,539
Board-designated endowment funds	2,458,385			2,458,385
Total endowment net assets	\$ 2,458,385	\$ 841,944	\$ 2,458,595	\$ 5,758,924

FIELDING GRADUATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended June 30, 2018 and 2017

NOTE 8 - ENDOWMENT (Continued)

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2017	\$ 2,458,385	\$ 841,944	\$ 2,458,595	\$ 5,758,924
Investment return:				
Investment income	76,813	103,580		180,393
Net appreciation - realized and unrealized, net fees of \$50,000	117,365	138,420		255,785
Total investment return	194,178	242,000		436,178
Contributions			170,268	170,268
Transfers		(2,000)	52,825	50,825
Appropriation of endowment assets for expenditure (spending rate)		(75,841)		(75,841)
Endowment net assets, June 30, 2018	<u>\$ 2,652,563</u>	<u>\$ 1,006,103</u>	<u>\$ 2,681,688</u>	<u>\$ 6,340,354</u>

Changes in endowment net assets for the year ended June 30, 2017 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, June 30, 2016	\$ 2,178,285	\$ 581,212	\$ 2,153,940	\$ 4,913,437
Investment return:				
Investment income	50,520	62,115		112,635
Net appreciation - realized and unrealized, net fees of \$50,000	229,580	272,303		501,883
Total investment return	280,100	334,418		614,518
Contributions			311,515	311,515
Transfers			(6,860)	(6,860)
Appropriation of endowment assets for expenditure (spending rate)		(73,686)		(73,686)
Endowment net assets, June 30, 2017	<u>\$ 2,458,385</u>	<u>\$ 841,944</u>	<u>\$ 2,458,595</u>	<u>\$ 5,758,924</u>

Funds with Deficiencies - From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the University to retain as a fund of perpetual duration. In accordance with GAAP, there were no deficiencies of this nature that are reported in unrestricted net assets as of June 30, 2018 and 2017. These deficiencies can generally result from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the governing board. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets.

FIELDING GRADUATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2018 and 2017

NOTE 8 - ENDOWMENT (Continued)

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

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

Spending Policy and How the Investment Objectives Relate to Spending Policy - The University has a policy of appropriating for distribution each year up to a maximum of 4% of its endowment fund's average fair value using the prior twelve quarters as of June 30. In establishing this policy, the University considered the long-term expected return on its endowment. Accordingly, over the long term, the University expects the current spending policy to allow its endowment to grow at an average of the Consumer Price Index plus 4% annually. This is consistent with the University's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

NOTE 9 - LONG TERM DEBT

	Original Amount	2018	2017
Bank line of credit	\$ 1,222,987	\$ 468,296	\$ 504,297
Bank note payable	1,000,000	693,606	706,739
Bank note payable	1,725,000	1,277,873	1,327,666
Total		<u>\$ 2,439,775</u>	<u>\$ 2,538,702</u>

Terms for each of the loans outstanding are as follows:

Line of credit with a bank providing for borrowings of \$1,222,987, interest at the prime rate minus 1% (never less than 2.25%), requiring monthly payments of interest only, maturing August 1, 2022 and collateralized by certain investment accounts equal to the outstanding balance of the line of credit. Interest rates at June 30, 2018 and 2017 were 4% and 3.25%, respectively.

Note payable to a bank for \$1,000,000, payable in monthly principal and interest installments of \$3,463, bearing interest fixed at 4%; with final payment due April 1, 2026, collateralized by real estate in Santa Barbara which has a net book value of \$1,598,030.

Note payable to a bank for \$1,725,000, payable in monthly principal and interest installments of \$8,780, bearing interest at the weekly average yield on United States Treasury securities plus 2.75%; (but not greater than 11.5%), with final payment due April 1, 2036, collateralized by real estate in Santa Barbara which has a net book value of \$1,971,472. Interest rates at June 30, 2018 and 2017 were 4.625% and 3.5%, respectively.

FIELDING GRADUATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended June 30, 2018 and 2017

NOTE 9 - LONG TERM DEBT (Continued)

Annual maturities of all long-term debt at June 30, 2018 are as follows:

Year Ending June 30,	
2019	\$ 61,319
2020	64,125
2021	67,059
2022	70,128
2023	541,634
Thereafter	<u>1,635,510</u>
Total	<u>\$ 2,439,775</u>

Total interest expense for the years ended June 30, 2018 and 2017 was \$94,528 and \$89,122, respectively.

NOTE 10 - LINE OF CREDIT

The University has a \$1,000,000 line of credit with a bank which is collateralized by all assets of the University. The agreement expires on November 15, 2018 and is payable at an interest rate equal to the prime rate plus 1%. The interest rate will never be less than 4.5%. At June 30, 2018 and 2017, the University had no borrowings outstanding under this agreement.

NOTE 11 - OPERATING LEASES

The University has operating leases for copier and computer equipment. Rental expense associated with these leases totaled approximately \$26,000 and \$28,000 for the years ended June 30, 2018 and 2017, respectively.

Future minimum lease payments on long-term leases in effect on June 30, 2018 are as follows:

Year Ending June 30,	
2019	\$ 25,859
2020	<u>3,855</u>
Total	<u>\$ 29,714</u>

FIELDING GRADUATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

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NOTE 12 - ALLOCATION OF EXPENSES

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Costs related to certain property are not allocated. Accordingly, the following expenses have been allocated among the programs and supporting services benefited:

	2018	2017
Interest expense	\$ 29,753	\$ 28,569
Depreciation	216,714	234,106
Operation and maintenance	145,991	148,499
Total	<u>\$ 392,458</u>	<u>\$ 411,174</u>

In addition to the interest expense allocated above, \$64,775 and \$60,553 in 2018 and 2017, respectively and the depreciation expense allocated above, \$102,832 and \$108,576 in 2018 and 2017, respectively has been included in institutional support.

NOTE 13 - CONCENTRATIONS

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

The University's students receive a substantial amount of support from state and federal student financial assistance programs which are subject to audit by governmental agencies. A significant reduction in the level of this support, if this were to occur, could have an adverse effect on the University's programs and activities.

NOTE 14 - RELATED PARTY TRANSACTIONS

As of June 30, 2018 and 2017, contribution revenue included approximately \$89,000 and \$71,000, respectively, and contributions receivable included approximately \$18,000 and \$6,000 as of June 30, 2018 and 2017, respectively, from members of the Board of Trustees and employees of the University. No compensation is paid to members of the Board of Trustees for their service on the Board. The Board of Trustees includes employees and members of the faculty who are compensated for their work in those respective roles.

NOTE 15 - REGULATORY MATTERS

Fielding Graduate University has been accredited by the WASC Senior College and University Commission (WSCUC) since 1982. In June 2018, WSCUC took action to reaffirm the University's accreditation through the next review visit, which will occur in the spring of 2026. The University's doctoral program in Clinical Psychology has been accredited by the American Psychological Association (APA) since 1991. In August 2018, the APA changed the Clinical Psychology program's accreditation status to "accredited, on probation" effective on September 22, 2018. The next review of the program will occur at the fall 2019 meeting of the APA's Commission on Accreditation.

FIELDING GRADUATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended June 30, 2018 and 2017

NOTE 16 – SUBSEQUENT EVENTS

The University has evaluated subsequent events through October 18, 2018, which is the date that the financial statements were available to be issued.