

# FRESNO PACIFIC UNIVERSITY AND SUBSIDIARIES

Consolidated Financial Statements  
With Independent Auditors' Report

June 30, 2018 and April 30, 2017

# FRESNO PACIFIC UNIVERSITY AND SUBSIDIARIES

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## INDEPENDENT AUDITORS' REPORT

Board of Trustees  
Fresno Pacific University  
and Subsidiaries  
Fresno, California

We have audited the accompanying consolidated financial statements of Fresno Pacific University and Subsidiaries (the University), which comprise the consolidated statements of financial position as of June 30, 2018 and April 30, 2017, and the related consolidated statements of activities and cash flows for the fourteen-month and twelve-month periods then ended, and the related notes to the consolidated financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 consolidated 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our modified audit opinion.

Board of Trustees  
Fresno Pacific University  
and Subsidiaries  
Fresno, California

***Basis for Qualified Opinion***

As discussed in note 17 to the consolidated financial statements, the Foundation carries art held for sale at an estimated \$8,010,000 and \$8,014,000 net of a valuation allowance for the fourteen-month period ended June 30, 2018 and the twelve-month period ended April 30, 2017, respectively. In our opinion, the valuation allowance is not sufficient based upon the historical sales since the donation occurred. Therefore, our opinion is modified as a result.

***Qualified Opinion***

In our opinion, except for the effects of the valuation of the art held for sale, as discussed in the *Basis for Qualified Opinion* paragraph, the consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the consolidated financial position of Fresno Pacific University as of June 30, 2018 and April 30, 2017, and the results of its consolidated operations and its cash flows for the fourteen-month and twelve-month periods then ended in accordance with accounting principles generally accepted in the United States of America.

*Capin Crouse LLP*

Pleasanton, California  
October 29, 2018

# FRESNO PACIFIC UNIVERSITY AND SUBSIDIARIES

## Consolidated Statements of Financial Position

	June 30, 2018	April 30, 2017
<b>ASSETS:</b>		
Cash and cash equivalents	\$ 1,193,627	\$ 1,603,673
Restricted cash	315,976	348,384
Investments	1,469,565	1,162,578
Accounts and other receivables	3,178,573	3,082,059
Prepaid expenses	825,266	828,510
Other assets	61,616	64,152
Notes receivable	584,190	692,754
Assets held in trust	12,890,808	14,976,135
Real property held for sale	862,226	747,226
Art held for sale	8,156,596	8,161,413
Assets held for endowments	15,239,566	13,759,955
Property and equipment—net	30,264,314	31,684,132
<b>Total Assets</b>	<b>\$ 75,042,323</b>	<b>\$ 77,110,971</b>
<b>LIABILITIES AND NET ASSETS:</b>		
<b>Liabilities:</b>		
Accounts payable	\$ 1,245,408	\$ 1,128,888
Accrued other liabilities	5,067,131	4,685,726
Amounts held for others	215,151	254,880
Deposits and deferred revenue	688,721	4,012,040
Trust and annuity obligations	6,188,985	7,222,229
Capital lease obligation	353,110	221,498
Interest rate swap obligation	63,648	259,753
Long-term debt	9,732,052	11,303,077
	23,554,206	29,088,091
<b>Net assets:</b>		
Unrestricted	21,276,944	19,277,165
Temporarily restricted	18,295,300	17,253,233
Permanently restricted	11,915,873	11,492,482
	51,488,117	48,022,880
<b>Total Liabilities and Net Assets</b>	<b>\$ 75,042,323</b>	<b>\$ 77,110,971</b>

See notes to consolidated financial statements

**FRESNO PACIFIC UNIVERSITY  
AND SUBSIDIARIES**

**Consolidated Statement of Activities**

	Fourteen Months Ended June 30,				Twelve Months Ended April 30,			
	2018				2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE, SUPPORT, AND RECLASSIFICATIONS:								
Student tuition and fees	\$ 74,645,752	\$ -	\$ -	\$ 74,645,752	\$ 60,787,203	\$ -	\$ -	\$ 60,787,203
Less student aid	(15,975,262)	-	-	(15,975,262)	(15,574,521)	-	-	(15,574,521)
	58,670,490	-	-	58,670,490	45,212,682	-	-	45,212,682
Auxiliary services	9,621,111	-	-	9,621,111	8,413,015	-	-	8,413,015
Private gifts and grants	1,742,673	2,011,822	383,169	4,137,664	1,518,313	2,534,093	180,776	4,233,182
Investment income	312,719	1,023,682	(7,979)	1,328,422	336,177	781,495	(7,979)	1,109,693
Actuarial change	-	425,068	-	425,068	-	323,827	-	323,827
Other income	1,126,730	-	-	1,126,730	(24,095)	-	-	(24,095)
	71,473,723	3,460,572	375,190	75,309,485	55,456,092	3,639,415	172,797	59,268,304
Net assets released from restrictions	2,370,304	(2,418,505)	48,201	-	3,204,674	(3,629,203)	424,529	-
Total Revenue, Support, and Reclassifications	73,844,027	1,042,067	423,391	75,309,485	58,660,766	10,212	597,326	59,268,304
EXPENSES:								
Instruction	21,739,874	-	-	21,739,874	18,049,424	-	-	18,049,424
Academic support	13,971,706	-	-	13,971,706	11,294,834	-	-	11,294,834
Student services	11,844,485	-	-	11,844,485	10,118,656	-	-	10,118,656
Institutional support	14,494,403	-	-	14,494,403	12,752,624	-	-	12,752,624
Auxiliary enterprises	5,514,867	-	-	5,514,867	4,396,252	-	-	4,396,252
Fundraising	1,330,246	-	-	1,330,246	1,220,047	-	-	1,220,047
Public service	2,948,667	-	-	2,948,667	2,034,643	-	-	2,034,643
Total Expenses	71,844,248	-	-	71,844,248	59,866,480	-	-	59,866,480
Change in Net Assets	1,999,779	1,042,067	423,391	3,465,237	(1,205,714)	10,212	597,326	(598,176)
Net Assets, Beginning of Year	19,277,165	17,253,233	11,492,482	48,022,880	20,482,879	17,243,021	10,895,156	48,621,056
Net Assets, End of Year	\$ 21,276,944	\$ 18,295,300	\$ 11,915,873	\$ 51,488,117	\$ 19,277,165	\$ 17,253,233	\$ 11,492,482	\$ 48,022,880

See notes to consolidated financial statements

**FRESNO PACIFIC UNIVERSITY  
AND SUBSIDIARIES**

**Consolidated Statements of Cash Flows**

	June 30, 2018	April 30, 2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 3,465,237	\$ (598,176)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	2,624,090	2,238,451
(Gain) or loss on disposition of art	(1,204)	853,510
Net realized and unrealized gain on investments	(716,288)	(584,965)
Actuarial gain on split interest agreements	(340,870)	(701,381)
Noncash contributions	(115,000)	(10,025)
Change in value of interest rate swaps	(196,105)	(231,273)
Contributions of endowments	(383,169)	(180,776)
Net change in:		
Restricted cash	32,408	70,936
Accounts and other receivables	(88,535)	279,352
Prepaid expenses	3,244	(204,564)
Other assets	(3,984)	18,812
Accounts payable	116,520	331,833
Accrued expenses and other liabilities	381,405	400,846
Amounts held for others	(39,729)	(6,393)
Deposits and deferred revenue	(3,323,319)	835,336
Net Cash Provided by Operating Activities	1,414,701	2,511,523
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	(891,937)	(1,422,357)
Proceeds from the sale of assets	6,021	3,451
Proceeds from the sales of investments	19,116,097	14,899,502
Purchases of investments	(18,786,934)	(15,726,621)
Collections on notes receivable	100,586	154,128
Net Cash Used in Investing Activities	(456,167)	(2,091,897)

(continued)

See notes to consolidated financial statements

**FRESNO PACIFIC UNIVERSITY  
AND SUBSIDIARIES**

**Consolidated Statement of Cash Flows**

(continued)

	<u>June 30,</u> <u>2018</u>	<u>April 30,</u> <u>2017</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Payments on long-term debt	(15,457,320)	(16,880,160)
Proceeds from long-term debt	13,886,294	16,583,774
Payments on capital lease obligation	(180,723)	(89,952)
Contributions of endowments	383,169	180,776
Net Cash Used in Financing Activities	<u>(1,368,580)</u>	<u>(205,562)</u>
Change in Cash and Cash Equivalents	(410,046)	214,064
Cash and Cash Equivalents, Beginning of Year	<u>1,603,673</u>	<u>1,389,609</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,193,627</u>	<u>\$ 1,603,673</u>
<b>SUPPLEMENTAL INFORMATION:</b>		
Cash paid during the year for interest	<u>\$ 504,583</u>	<u>\$ 502,988</u>

See notes to consolidated financial statements

# FRESNO PACIFIC UNIVERSITY AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

June 30, 2018 and April 30, 2017

1. NATURE OF ORGANIZATION:

Fresno Pacific University (the University), was established in 1944 in California. The University develops students for leadership and service through excellence in Christian higher education. Located in Fresno, California, the University has five locations throughout California's Central Valley and is home to approximately 3,500 undergraduate, graduate, and adult degree completion students. The University is accredited by the Western Association of Schools and Colleges (WASC). MBBS-US, Inc. (MBBS) is a nonprofit corporation whose purpose is the advancement and support of the seminary operated by the University. Fresno Pacific University Foundation (the Foundation) was incorporated December 23, 1986, as a nonprofit corporation for the purpose of advancement and support of education through providing assistance to and benefits for Fresno Pacific University, a California nonprofit corporation, its students, faculty and programs.

The University is a nonprofit, religious corporation exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and comparable state laws. However, the University is subject to federal income tax on any unrelated business taxable income. In addition, the University is not classified as a private foundation within the meaning of Section 509(a) of the IRC. Contributions by the public are deductible for income tax purposes. The primary source of revenue for the University is tuition and fee income from students.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The consolidated financial statements of the University have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. A summary of significant accounting policies followed are described below to enhance the usefulness of the consolidated financial statements to the reader.

### PRINCIPLES OF CONSOLIDATION

The consolidated financial statements of the University include the combined financial resources and activities of the Foundation and MBBS. All inter-organization balances and transactions have been eliminated in the consolidation.

### CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand, cash on deposit, and money market accounts. The University considers short-term highly liquid investments with an original maturity date of three months or less from the date of purchase. At June 30, 2018 and April 30, 2017, the University's cash balances exceeded federally insured limits by approximately \$357,000 and \$774,000, respectively. The University has not experienced any losses in such accounts.

### RESTRICTED CASH

The University has entered into certain agreements which require cash and cash equivalents be maintained in separate bank accounts. The University has complied with these requirements.

# FRESNO PACIFIC UNIVERSITY AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

June 30, 2018 and April 30, 2017

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

#### INVESTMENTS

Investments are held in readily-marketable securities and are measured at fair value. Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included in the consolidated statements of activities as unrestricted gains and losses unless a donor has restricted their purpose.

#### ACCOUNTS AND OTHER RECEIVABLES

Accounts and other receivables are reported net of any anticipated losses due to uncollectible accounts. The University's policy for determining when receivables are past due is if an account balance remains unpaid after the semester deadline. The allowance for doubtful accounts is maintained at a level which, in management's judgment, is adequate to absorb potential losses inherent in the receivable portfolio. The amount of the allowance is based on management's evaluation of the collectability of the receivable portfolio, including the age of the receivable, the history for each student's account balance, and economic conditions.

#### NOTES RECEIVABLE

Notes receivable consist of amounts due under the Federal Perkins Program and are stated at their outstanding principal amount, net of an allowance for doubtful notes. Loans are made to students based on demonstrated financial need for such loans and satisfaction of federal eligibility requirements. Principal and interest payments on loans generally do not commence until after the borrower graduates or otherwise ceases enrollment. The University provides an allowance for doubtful notes, which is based upon a review of outstanding loans, historical collection information and existing economic conditions. Interest income is recorded as received, which is not materially different from the amount that would have been recognized on the accrual basis. Loans that are delinquent continue to accrue interest. Loans that are past due for at least one payment are considered delinquent. Delinquent loans are written off based on individual credit evaluation and specific circumstances of the student.

# FRESNO PACIFIC UNIVERSITY AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

June 30, 2018 and April 30, 2017

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

#### ASSETS HELD IN TRUST

The Foundation is the trustee of 52 trusts and has remainder interest in charitable remainder unitrusts (CRUTS), net income charitable remainder unitrusts (NIMCRUTS) and charitable remainder annuity trusts (CRATS). Each trust is set up so that named beneficiaries receive periodic payments during their lifetimes or for a specified number of years. The assets held in trust are reflected at fair value. The net present value of the payments to be made to individuals has been computed, using the assumption of the actuarial life of the younger beneficiary for each trust and the expected return on assets and discounted rate over the life expectancy. The discounted rate used for the fourteen-month period ended June 30, 2018 and twelve-month period ended April 30, 2017, was 5%. The net present value amount of payments so determined for the CRUTS and CRATS is shown as trust liabilities. The net present value of amount of payments so determined for the NIMCRUTS is shown as deferred revenue. Each displayed amount is adjusted at each year-end for changes in asset values, changes in actuarial assumptions and to allow for the passage of time with respect to the net present value of the liability. Certain trusts require a portion of the trust residual to be distributed to other organizations upon final distribution of trust assets and is disclosed as remaindermen due to others (note 5).

#### ART HELD FOR SALE

Several collections of limited edition prints were donated to the Foundation in 1998 and 1999 with immaterial amounts being donated since then. The art was originally appraised by qualified art appraisers and recorded at fair value on the date of donation. The Foundation is working to sell the art through various channels including online, trade shows, and bulk sales. The Foundation has recorded the art at fair value with a valuation allowance of approximately 60%. As of June 30, 2018 and April 30, 2017, the cost basis of the art held for sale was approximately \$19,939,000 and \$19,951,000, respectively, and had a valuation allowance of approximately \$11,929,000 and \$11,937,000, respectively.

#### PROPERTY AND EQUIPMENT

Property and equipment are stated at cost at date of acquisition or fair market value at date of donation in the case of gifts. Depreciation is computed by the straight-line method with estimated useful lives ranging from five to 60 years. Computers with costs greater than \$1,000 and other assets with costs greater than \$2,500 are capitalized; expenditures for routine maintenance are expensed.

# FRESNO PACIFIC UNIVERSITY AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

June 30, 2018 and April 30, 2017

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

#### NET ASSETS

The consolidated financial statements report amounts by class of net assets:

*Unrestricted net assets* are those amounts currently available at the discretion of the board for use in the University's operations and those resources invested in property and equipment.

*Temporarily restricted net assets* contain donor-imposed restrictions that require the University to use or expend the assets as specified. These restrictions are satisfied either by the passage of time or by actions of the University.

*Permanently restricted net assets* contain donor-imposed restrictions and stipulate that the resources be maintained permanently but permit the University to use or expend part or all of the income derived from the donated assets for either specified or unspecified purposes.

#### SUPPORT, REVENUE, AND EXPENSES

Contributions are recorded when cash or unconditional promises-to-give have been received or ownership of donated assets is transferred to the University. The University records contributions as unrestricted unless they are received with donor stipulations that limit their use either through purpose or time restrictions, or both. When donor restrictions expire, that is, when the purpose restriction is fulfilled or the time restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions.

Contributions of cash or other assets to be used to acquire property and equipment with such donor stipulations are reported as revenues of the temporarily restricted net assets class. The restrictions are considered to be released at the time of acquisition of such long-lived assets.

The University records tuition and other fees as earned. Expenses are recorded when incurred in accordance with the accrual basis of accounting.

#### FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing various program services and supporting activities of the University have been summarized on a functional basis in note 12. Accordingly, certain costs have been allocated among the program services and supporting activities benefited based on management estimates.

# FRESNO PACIFIC UNIVERSITY AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

June 30, 2018 and April 30, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

### USE OF ESTIMATES

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

### ADVERTISING

The University advertises to promote its academic programs as well as various special events occurring on campus. Advertising costs are expensed as incurred. For the fourteen-month period ended June 30, 2018 and twelve-month period ended April 30, 2017, advertising costs were approximately \$1,167,000 and \$1,430,000, respectively.

### STUDENT FINANCIAL ASSISTANCE PROGRAMS

The University participates in the delivery of student financial assistance programs under various programs administered by the Department of Education. The related activity is subject to audit both by independent certified public accountants and by representatives of the administering agency regarding compliance with applicable regulations. Any resultant findings of noncompliance could potentially result in the required return of related funds received and/or the assessment of fines or penalties or the discontinuation of eligibility for participation.

# FRESNO PACIFIC UNIVERSITY AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

June 30, 2018 and April 30, 2017

3. INVESTMENTS, ASSETS HELD IN TRUST, AND ASSETS HELD FOR ENDOWMENTS:

Investments, assets held in trust, and assets held for endowments at June 30, 2018, consist of:

	University	Foundation	MBBS-US	Total
Investments:				
Cash and cash equivalents	\$ -	\$ 359	\$ -	\$ 359
Fixed income	1,231,998	-	-	1,231,998
Mutual funds	101,673	-	-	101,673
Cash surrender value of life insurance	36,131	99,404	-	135,535
	1,369,802	99,763	-	1,469,565
Assets held in trust:				
Cash and cash equivalents	-	495,763	-	495,763
Fixed income	-	4,078,041	-	4,078,041
Equities	-	5,067,135	-	5,067,135
Real asset	-	871,509	-	871,509
Notes receivable	-	376,926	-	376,926
Annuities	-	232,790	-	232,790
Other investments	-	1,768,644	-	1,768,644
	-	12,890,808	-	12,890,808
Assets held for endowments:				
Cash and cash equivalents	-	138,568	-	138,568
Fixed income	2,519,791	2,008,104	734,423	5,262,318
Mutual funds	3,255,581	-	1,015,822	4,271,403
Equities	1,026,238	3,465,404	322,478	4,814,120
Real asset	375,545	237,341	109,174	722,060
Other investments	-	31,097	-	31,097
	7,177,155	5,880,514	2,181,897	15,239,566
	\$ 8,546,957	\$ 18,871,085	\$ 2,181,897	\$ 29,599,939

# FRESNO PACIFIC UNIVERSITY AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

June 30, 2018 and April 30, 2017

3. INVESTMENTS, ASSETS HELD IN TRUST, AND ASSETS HELD FOR ENDOWMENTS, continued:  
Investments, assets held in trust, and assets held for endowments at April 30, 2017, consist of:

	University	Foundation	MBBS-US	Total
Investments:				
Cash and cash equivalents	\$ -	\$ 1,064	\$ -	\$ 1,064
Fixed income	938,602	-	-	938,602
Mutual funds	95,779	1,004	-	96,783
Cash surrender value of life insurance	34,310	91,819	-	126,129
	1,068,691	93,887	-	1,162,578
Assets held in trust:				
Cash and cash equivalents	-	482,256	-	482,256
Fixed income	-	5,173,787	-	5,173,787
Equities	-	4,360,105	-	4,360,105
Real asset	-	777,834	-	777,834
Notes receivable	-	1,040,299	-	1,040,299
Real estate	-	1,480,000	-	1,480,000
Annuities	-	220,681	-	220,681
Other investments	-	1,441,173	-	1,441,173
	-	14,976,135	-	14,976,135
Assets held for endowments:				
Cash and cash equivalents	-	352,320	-	352,320
Fixed income	6,184,542	1,031,312	679,985	7,895,839
Mutual funds	1,014,310	-	952,737	1,967,047
Equities	338,104	2,532,340	324,399	3,194,843
Real asset	-	149,322	-	149,322
Other investments	112,446	-	88,138	200,584
	7,649,402	4,065,294	2,045,259	13,759,955
	\$ 8,718,093	\$ 19,135,316	\$ 2,045,259	\$ 29,898,668

# FRESNO PACIFIC UNIVERSITY AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

June 30, 2018 and April 30, 2017

3. INVESTMENTS, ASSETS HELD IN TRUST, AND ASSETS HELD FOR ENDOWMENTS, continued:

Investment income for the fourteen-month period ended June 30, 2018, consists of:

	University	Foundation	MBBS-US	Total
Interest and dividends	\$ 195,088	\$ 179,578	\$ 41,363	\$ 416,029
Realized gains (losses)	180,414	32,407	58,355	271,176
Unrealized gains (losses)	378,103	226,183	36,931	641,217
	\$ 753,605	\$ 438,168	\$ 136,649	\$ 1,328,422

Investment income for the twelve-month period ended April 30, 2017, consists of:

	University	Foundation	MBBS-US	Total
Interest and dividends	\$ 170,351	\$ 96,388	\$ 26,716	\$ 293,455
Realized gains (losses)	182,334	(893,263)	136,788	(574,141)
Unrealized gains (losses)	356,015	996,256	38,108	1,390,379
	\$ 708,700	\$ 199,381	\$ 201,612	\$ 1,109,693

Investment income as reported in the consolidated statement of activities is net of management fees. Investment fees amounted to approximately \$93,000 and \$74,000 during the fourteen-month period ended June 30, 2018 and twelve-month period ended April 30, 2017, respectively.

The Foundation has borrowed against the endowment in previous years. The allocation for the fourteen-month period ended June 30, 2018 and twelve-month period ended April 30, 2017 was approximately \$83,000 and \$88,000, respectively, and is a reduction in unrestricted interest and dividends and an increase to temporarily restricted interest and dividends.

4. ACCOUNTS AND OTHER RECEIVABLES:

Accounts and other receivables consist of:

	June 30, 2018	April 30, 2017
Student accounts receivable	\$ 4,248,903	\$ 4,095,160
Other receivables	1,660,082	1,310,023
	5,908,985	5,405,183
Less allowance for doubtful accounts	(2,730,412)	(2,323,124)
	\$ 3,178,573	\$ 3,082,059

# FRESNO PACIFIC UNIVERSITY AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

June 30, 2018 and April 30, 2017

5. ASSETS HELD IN TRUST:

Assets held in trust consist of:

	June 30, 2018	April 30, 2017
Investments:		
Cash and cash equivalents	\$ 495,763	\$ 482,256
Fixed income	4,078,041	5,173,787
Equities	5,067,135	4,360,105
Real assets	871,509	777,834
Other investments	1,712,861	1,378,750
	12,225,309	12,172,732
Other assets:		
Real estate	-	1,480,000
Notes receivable	376,926	1,040,299
Annuities	232,790	220,681
Other	55,783	62,423
	665,499	2,803,403
	\$ 12,890,808	\$ 14,976,135

Trust liabilities and net assets consist of the following:

	June 30, 2018	April 30, 2017
Liabilities:		
Trust obligations	\$ 3,173,926	\$ 3,689,522
Deferred revenue	2,314,502	2,588,076
Remaindermen due to others	700,557	944,631
	6,188,985	7,222,229
Net assets:		
Temporarily restricted	6,298,296	6,980,208
Permanently restricted	403,528	773,698
	6,701,824	7,753,906
	\$ 12,890,809	\$ 14,976,135

# FRESNO PACIFIC UNIVERSITY AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

June 30, 2018 and April 30, 2017

5. ASSETS HELD IN TRUST, continued:

Change in value of trusts consist of the following for the periods ended:

	June 30, 2018	April 30, 2017
Contributions	\$ 10,224	\$ 585,962
Assets released on trust maturities and reimbursement of expenses to the Foundation	(1,435,730)	(163,686)
Actuarial change	425,068	215,052
Investment loss	(51,644)	(130,028)
	\$ (1,052,082)	\$ 507,300

6. PROPERTY AND EQUIPMENT:

Property and equipment consists of:

	June 30, 2018	April 30, 2017
Land and improvements	\$ 2,754,569	\$ 2,754,569
Buildings and improvements	50,982,348	50,936,831
Equipment	14,557,761	13,662,038
Vehicles	944,429	931,429
Library books	5,014,743	5,014,743
	74,253,850	73,299,610
Less accumulated depreciation	(44,546,734)	(41,922,644)
	29,707,116	31,376,966
Construction in progress	557,198	307,166
Property and equipment-net	30,264,314	31,684,132
Less notes payable and capital lease obligation	(9,434,040)	(10,845,689)
	\$ 20,830,274	\$ 20,838,443

**FRESNO PACIFIC UNIVERSITY  
AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

June 30, 2018 and April 30, 2017

7. CAPITAL LEASE OBLIGATION:

The University leases office equipment through a capital lease, which will mature in October 2021. The assets and related accumulated amortization are as follows:

	June 30, 2018	April 30, 2017
Equipment	\$ 735,898	\$ 423,563
Less accumulated amortization	(224,968)	(154,374)
	\$ 510,930	\$ 269,189

Future minimum payments are as follows:

<u>Year Ending April 30,</u>	
2019	\$ 171,905
2020	114,370
2021	81,330
	367,605
Less amount representing interest	(14,495)
	\$ 353,110

# FRESNO PACIFIC UNIVERSITY AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

June 30, 2018 and April 30, 2017

8. INTEREST RATE SWAP OBLIGATION:

The University has entered into fixed-rate interest swaps on several of its notes payable. These swaps effectively convert variable-rates to fixed-rates, thereby reducing the impact of future interest rate changes on future interest expense. The swaps were issued at market terms and had no fair value. Contractual terms at June 30, 2018 and April 30, 2017, are as follows:

	June 30, 2018	April 30, 2017
2004 Swap:		
Fixed rate	5.06%	5.06%
Variable rate	3.85%	2.74%
Remaining term of contract (in years)	2	3
Original notional amount	\$ 3,000,000	\$ 3,000,000
Notional amount outstanding at year-end	\$ 453,280	\$ 777,241
Fair value of swap obligation		
(liability on the consolidated statement of financial position)	\$ 9,002	\$ 38,285
Gain on swap (other income on consolidated statement of activities)	\$ 29,283	\$ 45,242
2011 Swap:		
Fixed rate	4.97%	4.97%
Variable rate	3.85%	2.74%
Remaining term of contract (in years)	3	4
Original notional amount	\$ 6,000,000	\$ 6,000,000
Notional amount outstanding at year-end	\$ 3,925,000	\$ 4,275,000
Fair value of swap obligation		
(liability on the consolidated statement of financial position)	\$ 54,646	\$ 221,468
Gain (loss) on swap		
(other income on consolidated statement of activities)	\$ 166,822	\$ 186,031

**FRESNO PACIFIC UNIVERSITY  
AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

June 30, 2018 and April 30, 2017

9. LONG-TERM DEBT:

Long-term debt consists of:

	June 30, 2018	April 30, 2017
Note payable secured by real property with a variable interest rate with an effective fixed interest rate of 4.97% due to the interest rate swap. Monthly payments are \$25,000 consisting of principal plus interest. The note matures in April 2021.	\$ 3,925,000	\$ 4,275,000
Note payable secured by real property with a variable interest rate (2.74% at June 30, 2018). Monthly payments are variable and consist of principal and interest. The note matures in December 2019.	793,242	1,360,175
Note payable secured by real property with a variable interest rate (2.87% at June 30, 2018). Monthly payments consist of approximately \$5,300 in principal plus interest. The note matures in October 2022.	279,496	353,304
Note payable secured by real property with a variable interest rate (2.75% at June 30, 2018). Monthly payments consist of approximately \$2,600 in principal plus interest. The note matures in February 2020.	51,344	87,352
Line of credit secured by real property with a variable interest rate (3.37% at June 30, 2018). Interest is due monthly and matures in April 2021. The line has a maximum borrowing capacity of \$5,400,000 at April 30, 2017, and is reduced by \$600,000 annually.	4,000,000	4,500,000
Individual, secured by a residential property pledged under a first deed of trust. Principal and interest paid in monthly installments of \$790 at 4.0% interest until paid in full.	54,162	63,060
Balance carried forward	9,103,244	10,638,891

# FRESNO PACIFIC UNIVERSITY AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

June 30, 2018 and April 30, 2017

9. LONG-TERM DEBT, continued:

	June 30, 2018	April 30, 2017
Balance carried forward	9,103,244	10,638,891
<p>Non-profit organization loan fund, secured by a residential property pledged under a first deed of trust and pledge of endowment funds of \$34,267. Principal and interest paid in monthly installments of \$585 at 4.70% interest until due and payable in full on January 1, 2030. A maximum of 20% then existing principal balance may be prepaid each calendar year. A 5% prepayment charge is incurred if payment amount exceeds permitted prepayment although lender has discretion to waive charge depending on source of prepayments.</p>	94,871	97,949
<p>Non-profit organization loan fund, secured by a residential property pledged under a first deed of trust and pledge of endowment funds of \$79,833. Principal and interest paid in monthly installments of \$1,359 at 4.70% interest until due and payable in full on January 1, 2030. A maximum of 20% then existing principal balance may be prepaid each calendar year. A 5% prepayment charge is incurred if payment amount exceeds permitted prepayment although lender has discretion to waive charge depending on source of prepayments.</p>	221,070	228,217
<p>Non-profit organization loan fund, secured by a residential property pledged under a first deed of trust and pledge of endowment funds of \$30,500. Principal and interest paid in monthly installments of \$520 at 4.70% interest until due and payable in full on January 1, 2030. A maximum of 20% then existing principal balance may be prepaid each calendar year. A 5% prepayment charge is incurred if payment amount exceeds permitted prepayment although lender has discretion to waive charge depending on source of prepayments.</p>	84,449	87,192
Balance carried forward	9,503,634	11,052,249

# FRESNO PACIFIC UNIVERSITY AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

June 30, 2018 and April 30, 2017

9. LONG-TERM DEBT, continued:

	June 30, 2018	April 30, 2017
Balance carried forward	9,503,634	11,052,249
Non-profit organization loan fund, secured by a residential property pledged under a first deed of trust and pledge of endowment funds of \$32,400. Principal and interest paid in monthly installments of \$521 at 4.70% interest until due and payable in full on August 1, 2030. A maximum of 20% then existing principal balance may be prepaid each calendar year. A 5% prepayment charge is incurred if payment amount exceeds permitted prepayment although lender has discretion to waive charge depending on source of prepayments.	85,782	88,463
Non-profit organization loan fund, secured by a residential property pledged under a first deed of trust and pledge of endowment funds of \$59,100. Principal and interest paid in monthly installments of \$656 at 4.70% interest until due and payable in full on July 1, 2031. A maximum of 20% then existing principal balance may be prepaid each calendar year. A 5% prepayment charge is incurred if payment amount exceeds permitted prepayment although lender has discretion to waive charge depending on source of prepayments.	110,788	114,005
Other	31,848	48,360
	\$ 9,732,052	\$ 11,303,077

### LOAN COVENANTS

Notes payable contain various financial covenants. As of June 30, 2018 and April 30, 2017, the University was in compliance with or had waivers for all covenants. Annual minimum payments are as follows:

<u>Year Ending June 30,</u>	
2019	\$ 954,070
2020	692,323
2021	7,417,013
2022	89,672
2023	54,103
Thereafter	524,871
	\$ 9,732,052

# FRESNO PACIFIC UNIVERSITY AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

June 30, 2018 and April 30, 2017

9. LONG-TERM DEBT, continued:

LINE OF CREDIT

The Foundation has a \$500,000 line of credit with Bank of the West. The unsecured credit line requires monthly interest payments of 0.25% above the alternate base rate, which was 5.0% at year-end. The outstanding balance at June 30, 2018 and April 30, 2017 was \$0. There were no borrowings and repayments made during the periods ended June 30, 2018 and April 30, 2017. The line of credit has a covenant requiring that financial statements be provided not later than 150 days after fiscal year-end.

10. NET ASSETS:

Net assets consist of:

	June 30, 2018	April 30, 2017
Unrestricted:		
Undesignated	\$ (493,862)	\$ (2,460,320)
Board-designated	940,532	940,532
Underwater endowments	-	(41,490)
Net investment in property and equipment	20,830,274	20,838,443
	21,276,944	19,277,165
Temporarily restricted:		
Accumulated unspent endowment earnings	4,195,035	3,698,341
Beneficial interest in trusts	6,298,296	6,980,208
Capital improvements	4,595,137	4,403,246
University programs	1,318,508	1,017,922
Scholarships	887,873	593,252
Other	1,000,451	560,264
	18,295,300	17,253,233
Permanently restricted:		
Endowments	11,915,873	11,492,482
	\$ 51,488,117	\$ 48,022,880

The University had an unrestricted, undersigned net asset deficit for the periods ended June 30, 2018, and April 30, 2017. During the period ended June 30, 2018, the University made significant improvements in the deficit by controlling expenses and generating a positive unrestricted change in net assets.

# FRESNO PACIFIC UNIVERSITY AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

June 30, 2018 and April 30, 2017

11. LEASE COMMITMENTS:

The University leases four campuses and certain equipment under non-cancelable operating lease agreements. Total rent expense was approximately \$4,500,000 and \$3,620,000 for the fourteen-month period ended June 30, 2018, and twelve-month period ended April 30, 2017, respectively. Future minimum lease payments under non-cancelable operating leases with initial terms of one year or more as follows:

<u>Year Ending June 30,</u>	
2019	\$ 3,483,455
2020	2,236,536
2021	1,348,671
2022	1,188,367
2023	1,093,955
Thereafter	<u>517,373</u>
	<u><u>\$ 9,868,357</u></u>

12. FUNCTIONAL EXPENSE ALLOCATION:

The allocation of expenses by function is as follows:

	<u>June 30,</u>	<u>April 30,</u>
	<u>2018</u>	<u>2017</u>
Program services	\$ 56,019,599	\$ 45,893,809
Supporting activities:		
General and administrative	14,494,403	12,752,624
Fundraising	<u>1,330,246</u>	<u>1,220,047</u>
	<u><u>\$ 71,844,248</u></u>	<u><u>\$ 59,866,480</u></u>

13. EMPLOYEE BENEFIT PLANS:

The University participates in the TIAA-CREF retirement plan (the Plan). All regular faculty, administrators, and administrative staff are covered upon beginning service and all other regular staff who work 20 hours a week or more are covered after two years of service. The University's contribution to the Plan for the periods ended June 30, 2018 and April 30, 2017 were approximately \$300,000 and \$282,000, respectively.

# FRESNO PACIFIC UNIVERSITY AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

June 30, 2018 and April 30, 2017

### 14. ENDOWMENTS:

The University's endowment consists of individual funds established for scholarships and other purposes. The endowment includes donor-restricted endowment funds (the significant majority of which were established to provide scholarships to University students). As required by accounting principles generally accepted in the United States of America (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.

The board of trustees of the University has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by SPMIFA.

In accordance with SPMIFA, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the University and the specific donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the University
- The investment policies of the University

### 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 SPMIFA requires the University to retain as a fund of perpetual duration. There were approximately \$0 and \$41,000 of deficiencies in the fund as of June 30, 2018 and April 30, 2017, respectively.

# FRESNO PACIFIC UNIVERSITY AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

June 30, 2018 and April 30, 2017

14. ENDOWMENTS, continued:

**RETURN OBJECTIVES AND RISK PARAMETERS**

The University has adopted investment and spending policies for donor-restricted endowment assets that attempt to provide a predictable stream of funding for student scholarships while seeking to maintain the purchasing power of the endowment assets. Under these policies, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of selected benchmarks for each investment asset class while assuming a moderate level of investment risk. The University expects its endowment funds, over time, to provide an average annual rate of return greater than the corresponding benchmark index. Actual returns in any given year may vary from this amount.

**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 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 5% of a rolling three-year average for distribution each year of the endowment fund's fiscal year beginning balance, limited to current year earnings, with the exception of the AIMS Math and Science Chairs funds. The distribution of the AIMS Math and Science Chairs funds is the sum of the Chairs' compensation packages limited to the spendable portion of those funds. In establishing this policy, the University considered long-term expected return on its endowments. Accordingly, over the long-term, the University expects the current spending policy to allow its endowment to grow at an average of 2% annually. This is consistent with the University's objective to maintain the purchasing power of the endowment fund as well as to provide additional real growth through new gifts and investment.

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	\$ -	\$ 4,195,035	\$ 11,915,873	\$ 16,110,908
	\$ -	\$ 4,195,035	\$ 11,915,873	\$ 16,110,908

**FRESNO PACIFIC UNIVERSITY  
AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

June 30, 2018 and April 30, 2017

14. ENDOWMENTS, continued:

Endowment net asset composition by type of fund as of April 30, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	\$ (41,490)	\$ 3,698,341	\$ 11,492,482	\$ 15,149,333
	<u>\$ (41,490)</u>	<u>\$ 3,698,341</u>	<u>\$ 11,492,482</u>	<u>\$ 15,149,333</u>

Changes in endowment net assets for the fourteen-month period ended June 30, 2018:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ (41,490)	\$ 3,698,341	\$ 11,492,482	\$ 15,149,333
Investment return:				
Investment income	-	393,914	-	393,914
Net realized and unrealized gains	-	524,625	(7,979)	516,646
Total investment return	<u>-</u>	<u>918,539</u>	<u>(7,979)</u>	<u>910,560</u>
Contributions	<u>-</u>	<u>-</u>	<u>383,169</u>	<u>383,169</u>
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(421,845)</u>	<u>-</u>	<u>(421,845)</u>
Other	<u>41,490</u>	<u>-</u>	<u>48,201</u>	<u>89,691</u>
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 4,195,035</u>	<u>\$ 11,915,873</u>	<u>\$ 16,110,908</u>

**FRESNO PACIFIC UNIVERSITY  
AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

June 30, 2018 and April 30, 2017

14. ENDOWMENTS, continued:

Changes in endowment net assets for the twelve-month period ended April 30, 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	<u>\$ (67,722)</u>	<u>\$ 3,240,484</u>	<u>\$ 10,895,156</u>	<u>\$ 14,067,918</u>
Investment return:				
Investment income	-	367,992	-	367,992
Net realized and unrealized gains	<u>-</u>	<u>609,007</u>	<u>(7,979)</u>	<u>601,028</u>
Total investment return	<u>-</u>	<u>976,999</u>	<u>(7,979)</u>	<u>969,020</u>
Contributions	<u>-</u>	<u>-</u>	<u>180,776</u>	<u>180,776</u>
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(502,910)</u>	<u>-</u>	<u>(502,910)</u>
Other	<u>26,232</u>	<u>(16,232)</u>	<u>424,529</u>	<u>434,529</u>
Endowment net assets, end of year	<u><u>\$ (41,490)</u></u>	<u><u>\$ 3,698,341</u></u>	<u><u>\$ 11,492,482</u></u>	<u><u>\$ 15,149,333</u></u>

15. FAIR VALUE MEASUREMENTS:

The University uses appropriate valuation techniques to determine fair value based on inputs available. When available, the University measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs are only used when Level 1 or Level 2 inputs were not available.

**FRESNO PACIFIC UNIVERSITY  
AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

June 30, 2018 and April 30, 2017

15. FAIR VALUE MEASUREMENTS, continued:

Fair values of assets measured on a recurring basis are as follows:

	Fair Value Measurements Using:		
	June 30, 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Investments, assets held in trust, and assets held for endowment:			
Money market accounts	\$ 634,690	\$ 634,690	\$ -
Mutual funds:			
Fixed-income	4,486,211	142,086	4,344,125
International equities	1,348,716	-	1,348,716
Large and small cap value	2,193,943	101,673	2,092,270
Large and small cap growth	2,179,134	-	2,179,134
REIT	484,719	-	484,719
	<u>10,692,723</u>	<u>243,759</u>	<u>10,448,964</u>
Fixed income:			
Corporate obligations	1,673,400	1,673,400	-
Domestic mutual funds	2,463,468	2,463,468	-
Government obligations	1,084,446	1,084,446	-
International mutual funds	864,831	864,831	-
	<u>6,086,145</u>	<u>6,086,145</u>	<u>-</u>

# FRESNO PACIFIC UNIVERSITY AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

June 30, 2018 and April 30, 2017

15. FAIR VALUE MEASUREMENTS, continued:

Fair values of assets measured on a recurring basis are as follows:

	Fair Value Measurements Using:		
	June 30, 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Investments, assets held in trust, and assets held for endowment:			
Equities:			
Consumer discretionary	466,689	466,689	-
Domestic mutual funds	4,841,735	4,841,735	-
Energy	98,016	98,016	-
Financials	368,618	368,618	-
Healthcare	325,828	325,828	-
Industrials	170,908	170,908	-
Information technology	569,880	569,880	-
International equities	367,138	367,138	-
International mutual funds	1,247,481	1,247,481	-
Materials	76,246	76,246	-
	8,532,539	8,532,539	-
Other investments	1,799,741	-	1,799,741
Other assets:			
Real property	1,108,850	-	1,108,850
Annuities	232,790	-	232,790
Cash surrender of life insurance	135,535	-	135,535
	1,477,175	-	1,477,175
	\$ 29,223,013	\$ 15,497,133	\$ 13,725,880

# FRESNO PACIFIC UNIVERSITY AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

June 30, 2018 and April 30, 2017

15. FAIR VALUE MEASUREMENTS, continued:

Fair values of assets measured on a recurring basis are as follows:

	Fair Value Measurements Using:		
	April 30, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Investments, assets held in trust, and assets held for endowment:			
Money market accounts	\$ 835,640	\$ 835,640	\$ -
Mutual funds:			
Fixed-income	7,801,529	142,041	7,659,488
International equities	662,503	-	662,503
Large and small cap value	1,072,884	95,779	977,105
Large and small cap growth	989,942	-	989,942
REIT	214,203	-	214,203
	10,741,061	237,820	10,503,241
Fixed income:			
Corporate obligations	1,845,926	1,845,926	-
Domestic mutual funds	2,799,336	2,799,336	-
Government obligations	948,748	948,748	-
International mutual funds	612,091	612,091	-
	6,206,101	6,206,101	-

# FRESNO PACIFIC UNIVERSITY AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

June 30, 2018 and April 30, 2017

15. FAIR VALUE MEASUREMENTS, continued:

Fair values of assets measured on a recurring basis are as follows:

	Fair Value Measurements Using:		
	April 30, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Investments, assets held in trust, and assets held for endowment:			
Equities:			
Consumer discretionary	254,826	254,826	-
Consumer staples	154,421	154,421	-
Domestic mutual funds	3,764,638	3,764,638	-
Energy	71,645	71,645	-
Financials	297,762	297,762	-
Healthcare	258,245	258,245	-
Industrials	179,285	179,285	-
Information technology	350,791	350,791	-
International equities	205,499	205,499	-
International mutual funds	1,296,094	1,296,094	-
Materials	29,501	29,501	-
Telecommunications	29,738	29,738	-
	<u>6,892,445</u>	<u>6,892,445</u>	<u>-</u>
Other investments	<u>2,305,906</u>	<u>-</u>	<u>2,305,906</u>
Other assets:			
Real property	220,681	-	927,156
Annuities	220,681	-	220,681
Cash surrender of life insurance	126,129	-	126,129
	<u>567,491</u>	<u>-</u>	<u>1,273,966</u>
	<u>\$ 27,327,963</u>	<u>\$ 14,172,006</u>	<u>\$ 13,155,957</u>

# FRESNO PACIFIC UNIVERSITY AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

June 30, 2018 and April 30, 2017

15. FAIR VALUE MEASUREMENTS, continued:

VALUATION TECHNIQUES

*Level 1:*

Fair value of money market accounts, fixed income, equities, and mutual funds is based upon quoted market prices.

*Level 2:*

Fair value of mutual funds are based upon significant other observable inputs in proprietary mutual funds held at MB Foundation.

*Changes in valuation techniques:* None.

16. INTERFUND BORROWING:

A portion of the permanently and temporarily restricted contributions have been utilized for expenditures relating to the program and fundraising activities of the Foundation. Expenditures include investment management fees, accounting, tax preparation, auditing, shared salary expense and earnings allocated to endowments from prior years. The Foundation intends to repay the obligation with the future proceeds from the sale of art, unrestricted gifts, the maturity of unrestricted trusts and the recapture of the trust administrative fees from other related organizations that are beneficiaries of various trusts.

The Foundation is allocating earnings to the endowments on an annual basis. The allocation is based on an interest rate of 3.25% for the fourteen-month period ended June 30, 2018 and the twelve-month period ended March 31, 2017. The allocation for the periods ended June 30, 2018 and March 31, 2017 was approximately \$83,000 and \$88,000, respectively, and is included in interest and dividends in note 4. At June 30, 2018 and March 31, 2017, interfund borrowing totaled approximately \$1,567,000 and \$2,571,000, respectively.

17. MODIFIED OPINION:

The Foundation received donated art as described in note 2 and was recorded at fair value. The Foundation has created a valuation allowance based upon management's experience with sales discounts when selling the art through various channels. Although the Foundation is working diligently to sell the art through various channels, the resulting sales do not support the existing valuation. Therefore, our opinion is modified as a result.

18. SUBSEQUENT EVENTS:

Subsequent events were evaluated through October 29, 2018, which is the date the consolidated financial statements were available to be issued. Subsequent events after that date have not been evaluated.

## **SUPPLEMENTAL INFORMATION**

**INDEPENDENT AUDITORS' REPORT  
ON SUPPLEMENTAL INFORMATION**

Board of Trustees  
Fresno Pacific University  
and Subsidiaries  
Fresno, California

We have audited the financial statements of Fresno Pacific University and Subsidiaries as of and for the fourteen-month period ended June 30, 2018 and twelve-month period ended April 30, 2017, and our report thereon dated October 29, 2018, which expressed a modified opinion on those consolidated financial statements, appears on page 1. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental consolidating statements of financial position and activities are presented for purposes of additional analysis of the consolidated financial statements rather than to present the consolidated financial position and results of operations of the individual organization, and it is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Capin Crouse LLP*

Pleasanton, California  
October 29, 2018

# FRESNO PACIFIC UNIVERSITY AND SUBSIDIARIES

## Consolidating Statement of Financial Position

June 30, 2018

	University	Foundation	MBBS-US	Total
<b>ASSETS:</b>				
Cash and cash equivalents	\$ 694,375	\$ 403,740	\$ 95,512	\$ 1,193,627
Restricted cash	315,976	-	-	315,976
Investments	1,369,802	99,763	-	1,469,565
Accounts and other receivables	3,063,763	114,810	-	3,178,573
Prepaid expenses	825,266	-	-	825,266
Other assets	59,616	2,000	-	61,616
Intercompany receivable	-	-	-	-
Notes receivable	481,233	102,957	-	584,190
Assets held in trust	-	12,890,808	-	12,890,808
Real property held for sale	-	862,226	-	862,226
Art held for sale	147,341	8,009,255	-	8,156,596
Assets held for endowments	7,177,155	5,880,514	2,181,897	15,239,566
Property and equipment—net	30,264,314	-	-	30,264,314
<b>Total Assets</b>	<b>\$ 44,398,841</b>	<b>\$ 28,366,073</b>	<b>\$ 2,277,409</b>	<b>\$ 75,042,323</b>
<b>LIABILITIES AND NET ASSETS:</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 1,243,908	\$ 1,500	\$ -	\$ 1,245,408
Accrued and other liabilities	5,067,131	-	-	5,067,131
Amounts held for others	215,151	-	-	215,151
Deposits and deferred revenue	688,721	-	-	688,721
Trust and annuity obligations	-	6,188,985	-	6,188,985
Capital lease obligation	353,110	-	-	353,110
Interest rate swap obligation	63,648	-	-	63,648
Long-term debt	9,080,930	651,122	-	9,732,052
	<u>16,712,599</u>	<u>6,841,607</u>	<u>-</u>	<u>23,554,206</u>
<b>Net assets:</b>				
Unrestricted	13,515,184	7,228,738	533,022	21,276,944
Temporarily restricted	10,017,878	7,829,628	447,794	18,295,300
Permanently restricted	4,153,180	6,466,100	1,296,593	11,915,873
	<u>27,686,242</u>	<u>21,524,466</u>	<u>2,277,409</u>	<u>51,488,117</u>
<b>Total Liabilities and Net Assets</b>	<b>\$ 44,398,841</b>	<b>\$ 28,366,073</b>	<b>\$ 2,277,409</b>	<b>\$ 75,042,323</b>

# FRESNO PACIFIC UNIVERSITY AND SUBSIDIARIES

## Consolidating Statement of Financial Position

April 30, 2017

	University	Foundation	MBBS-US	Total
<b>ASSETS:</b>				
Cash and cash equivalents	\$ 1,132,168	\$ 399,951	\$ 71,554	\$ 1,603,673
Restricted cash	348,384	-	-	348,384
Investments	1,067,627	94,951	-	1,162,578
Accounts and other receivables	2,962,889	119,170	-	3,082,059
Prepaid expenses	828,510	-	-	828,510
Other assets	62,152	2,000	-	64,152
Intercompany receivable	187,835	-	(187,835)	-
Notes receivable	580,630	112,124	-	692,754
Assets held in trust	-	14,976,135	-	14,976,135
Real property held for sale	-	747,226	-	747,226
Art held for sale	147,341	8,014,072	-	8,161,413
Assets held for endowments	7,649,402	4,065,294	2,045,259	13,759,955
Property and equipment—net	31,684,132	-	-	31,684,132
<b>Total Assets</b>	<b>\$ 46,651,070</b>	<b>\$ 28,530,923</b>	<b>\$ 1,928,978</b>	<b>\$ 77,110,971</b>
<b>LIABILITIES AND NET ASSETS:</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 1,095,155	\$ 33,733	\$ -	\$ 1,128,888
Accrued and other liabilities	4,685,726	-	-	4,685,726
Amounts held for others	254,880	-	-	254,880
Deposits and deferred revenue	4,012,040	-	-	4,012,040
Trust and annuity obligations	-	7,222,229	-	7,222,229
Capital lease obligation	221,498	-	-	221,498
Interest rate swap obligation	259,753	-	-	259,753
Long-term debt	10,624,191	678,886	-	11,303,077
	<u>21,153,243</u>	<u>7,934,848</u>	<u>-</u>	<u>29,088,091</u>
<b>Net assets:</b>				
Unrestricted	12,487,429	6,053,152	736,584	19,277,165
Temporarily restricted	8,929,602	8,216,050	107,581	17,253,233
Permanently restricted	4,080,796	6,326,873	1,084,813	11,492,482
	<u>25,497,827</u>	<u>20,596,075</u>	<u>1,928,978</u>	<u>48,022,880</u>
<b>Total Liabilities and Net Assets</b>	<b>\$ 46,651,070</b>	<b>\$ 28,530,923</b>	<b>\$ 1,928,978</b>	<b>\$ 77,110,971</b>

**FRESNO PACIFIC UNIVERSITY  
AND SUBSIDIARIES**

**Consolidating Statement of Activities**

Fourteen-Month Period Ended June 30, 2018

	University	Foundation	MBBS-US	Eliminations	Total
REVENUE, SUPPORT, AND RECLASSIFICATIONS:					
Student tuition and fees	\$ 74,645,752	\$ -	\$ -	\$ -	\$ 74,645,752
Less student aid	(15,975,262)	-	-	-	(15,975,262)
	58,670,490	-	-	-	58,670,490
Auxiliary services	9,621,111	-	-	-	9,621,111
Private gifts and grants	3,640,363	285,519	211,782	(158,060)	4,137,664
Investment income	753,605	438,168	136,649	-	1,328,422
Change in value	-	425,068	-	-	425,068
Intercompany transfers	-	-	-	-	-
Other income	1,056,736	69,994	-	-	1,126,730
Total Revenue, Support, and Reclassifications	73,742,305	1,218,749	348,431	(158,060)	75,309,485

(continued)

**FRESNO PACIFIC UNIVERSITY  
AND SUBSIDIARIES**

**Consolidating Statement of Activities**

Fourteen-Month Period Ended June 30, 2018

(continued)

	<u>University</u>	<u>Foundation</u>	<u>MBBS-US</u>	<u>Eliminations</u>	<u>Total</u>
EXPENSES:					
Instruction	21,739,874	-	-	-	21,739,874
Academic support	13,971,706	-	-	-	13,971,706
Student services	11,844,485	-	-	-	11,844,485
Institutional support	14,204,045	290,358	-	(158,060)	14,494,403
Auxiliary enterprises	5,514,867	-	-	-	5,514,867
Fundraising	1,330,246	-	-	-	1,330,246
Public service	2,948,667	-	-	-	2,948,667
Total Expenses	<u>71,553,890</u>	<u>290,358</u>	<u>-</u>	<u>(158,060)</u>	<u>71,844,248</u>
Change in Net Assets	2,188,415	928,391	348,431	-	3,465,237
Net Assets, Beginning of Year	<u>25,497,827</u>	<u>20,596,075</u>	<u>1,928,978</u>	<u>-</u>	<u>48,022,880</u>
Net Assets, End of Year	<u>\$ 27,686,242</u>	<u>\$ 21,524,466</u>	<u>\$ 2,277,409</u>	<u>\$ -</u>	<u>\$ 51,488,117</u>

**FRESNO PACIFIC UNIVERSITY  
AND SUBSIDIARIES**

**Consolidating Statement of Activities**

Twelve-Month Period Ended April 30, 2017

	<u>University</u>	<u>Foundation</u>	<u>MBBS-US</u>	<u>Eliminations</u>	<u>Total</u>
REVENUE, SUPPORT, AND RECLASSIFICATIONS:					
Student tuition and fees	\$ 60,787,203	\$ -	\$ -	\$ -	\$ 60,787,203
Less student aid	<u>(15,574,521)</u>	-	-	-	<u>(15,574,521)</u>
	45,212,682	-	-	-	45,212,682
Auxiliary services	8,413,015	-	-	-	8,413,015
Private gifts and grants	3,365,601	803,312	64,269	(103,100)	4,233,182
Investment income	708,700	199,381	201,612	-	1,109,693
Change in value	-	323,827	-	-	323,827
Intercompany transfers	80,275	-	(80,275)	-	-
Other income	<u>785,764</u>	<u>(809,859)</u>	<u>-</u>	<u>-</u>	<u>(24,095)</u>
Total Revenue, Support, and Reclassifications	<u>58,566,037</u>	<u>516,661</u>	<u>185,606</u>	<u>(103,100)</u>	<u>59,268,304</u>

(continued)

**FRESNO PACIFIC UNIVERSITY  
AND SUBSIDIARIES**

**Consolidating Statement of Activities**

Twelve-Month Period Ended April 30, 2017

(continued)

	<u>University</u>	<u>Foundation</u>	<u>MBBS-US</u>	<u>Eliminations</u>	<u>Total</u>
EXPENSES:					
Instruction	18,049,424	-	-	-	18,049,424
Academic support	11,294,834	-	-	-	11,294,834
Student services	10,118,656	-	-	-	10,118,656
Institutional support	12,547,349	205,275	-	(103,100)	12,752,624
Auxiliary enterprises	4,396,252	-	-	-	4,396,252
Fundraising	1,220,047	-	-	-	1,220,047
Public service	2,034,643	-	-	-	2,034,643
Total Expenses	<u>59,661,205</u>	<u>205,275</u>	<u>-</u>	<u>(103,100)</u>	<u>59,866,480</u>
Change in Net Assets	(1,095,168)	311,386	185,606	-	(598,176)
Net Assets, Beginning of Year	<u>26,592,995</u>	<u>20,284,689</u>	<u>1,743,372</u>	<u>-</u>	<u>48,621,056</u>
Net Assets, End of Year	<u>\$ 25,497,827</u>	<u>\$ 20,596,075</u>	<u>\$ 1,928,978</u>	<u>\$ -</u>	<u>\$ 48,022,880</u>

**FRESNO PACIFIC UNIVERSITY  
AND SUBSIDIARIES**

**Consolidating Statement of Cash Flows**

Fourteen-Month Period Ended June 30, 2018

	University	Foundation	MBBS-US	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Change in net assets	\$ 2,188,415	\$ 928,391	\$ 348,431	\$ 3,465,237
Adjustments to reconcile change in net assets to net cash provided by operating activities:				
Depreciation and amortization	2,624,090	-	-	2,624,090
Gain on disposition of art	-	(1,204)	-	(1,204)
Net realized and unrealized gain on investments	(362,414)	(258,588)	(95,286)	(716,288)
Actuarial gain on split interest agreements	-	(340,870)	-	(340,870)
Noncash contributions	-	(115,000)	-	(115,000)
Change in value of interest rate swaps	(196,105)	-	-	(196,105)
Contributions of endowments	(72,384)	(99,005)	(211,780)	(383,169)
Net change in:				
Restricted cash	32,408	-	-	32,408
Accounts and other receivables	(100,874)	12,339	-	(88,535)
Prepaid expenses	3,244	-	-	3,244
Other assets	2,536	(6,520)	-	(3,984)
Accounts payable	336,588	(32,233)	(187,835)	116,520
Accrued expenses and other liabilities	381,405	-	-	381,405
Amounts held for others	(39,729)	-	-	(39,729)
Deposits and deferred revenue	(3,323,319)	-	-	(3,323,319)
Net Cash Provided by (Used in) Operating Activities	1,473,861	87,310	(146,470)	1,414,701

(continued)

**FRESNO PACIFIC UNIVERSITY  
AND SUBSIDIARIES**

**Consolidating Statement of Cash Flows**

Fourteen-Month Period Ended June 30, 2018

(continued)

	<u>University</u>	<u>Foundation</u>	<u>MBBS-US</u>	<u>Total</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Purchases of property and equipment	(891,937)	-	-	(891,937)
Proceeds from the sale of assets	-	6,021	-	6,021
Proceeds from the sales of investments	5,412,210	13,703,887	-	19,116,097
Purchases of investments	(4,879,724)	(13,865,858)	(41,352)	(18,786,934)
Collections on notes receivable	99,397	1,189	-	100,586
Net Cash Used in Investing Activities	<u>(260,054)</u>	<u>(154,761)</u>	<u>(41,352)</u>	<u>(456,167)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>				
Payments on long-term debt	(15,429,555)	(27,765)	-	(15,457,320)
Proceeds from long-term debt	13,886,294	-	-	13,886,294
Payments on capital lease obligation	(180,723)	-	-	(180,723)
Contributions of endowments	72,384	99,005	211,780	383,169
Net Cash Provided by (Used in) Financing Activities	<u>(1,651,600)</u>	<u>71,240</u>	<u>211,780</u>	<u>(1,368,580)</u>
Change in Cash and Cash Equivalents	(437,793)	3,789	23,958	(410,046)
Cash and Cash Equivalents, Beginning of Year	<u>1,132,168</u>	<u>399,951</u>	<u>71,554</u>	<u>1,603,673</u>
Cash and Cash Equivalents, End of Year	<u>\$ 694,375</u>	<u>\$ 403,740</u>	<u>\$ 95,512</u>	<u>\$ 1,193,627</u>
<b>SUPPLEMENTAL INFORMATION:</b>				
Cash paid during the year for interest	<u>\$ 504,583</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 504,583</u>

**FRESNO PACIFIC UNIVERSITY  
AND SUBSIDIARIES**

**Consolidating Statement of Cash Flows**

Twelve-Month Period Ended April 30, 2017

	<u>University</u>	<u>Foundation</u>	<u>MBBS-US</u>	<u>Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Change in net assets	\$ (1,095,168)	\$ 311,386	\$ 185,606	\$ (598,176)
Adjustments to reconcile change in net assets to net cash provided by operating activities:				
Depreciation and amortization	2,238,451	-	-	2,238,451
Loss on disposition of art	-	853,510	-	853,510
Net realized and unrealized gain on investments	(299,096)	(110,973)	(174,896)	(584,965)
Actuarial gain on split interest agreements	-	(701,381)	-	(701,381)
Noncash contributions	-	(10,025)	-	(10,025)
Change in value of interest rate swaps	(231,273)	-	-	(231,273)
Contributions of endowments	(45,313)	(71,559)	(63,904)	(180,776)
Net change in:				
Restricted cash	70,936	-	-	70,936
Accounts and other receivables	272,459	6,893	-	279,352
Prepaid expenses	(204,564)	-	-	(204,564)
Other assets	25,910	(7,098)	-	18,812
Accounts payable	390,401	456	(59,024)	331,833
Accrued expenses and other liabilities	400,846	-	-	400,846
Amounts held for others	(6,393)	-	-	(6,393)
Deposits and deferred revenue	835,336	-	-	835,336
Net Cash Provided by Operating Activities	<u>2,352,532</u>	<u>271,209</u>	<u>(112,218)</u>	<u>2,511,523</u>

(continued)

**FRESNO PACIFIC UNIVERSITY  
AND SUBSIDIARIES**

**Consolidating Statement of Cash Flows**

Twelve-Month Period Ended April 30, 2017

(continued)

	<u>University</u>	<u>Foundation</u>	<u>MBBS-US</u>	<u>Total</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Purchases of property and equipment	(1,422,357)	-	-	(1,422,357)
Proceeds from the sale of assets	-	3,451	-	3,451
Proceeds from the sales of investments	2,013,138	12,871,831	14,533	14,899,502
Purchases of investments	(2,523,862)	(13,161,513)	(41,246)	(15,726,621)
Collections on notes receivable	153,487	641	-	154,128
Net Cash Used in Investing Activities	<u>(1,779,594)</u>	<u>(285,590)</u>	<u>(26,713)</u>	<u>(2,091,897)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>				
Payments on long-term debt	(16,860,233)	(19,927)	-	(16,880,160)
Proceeds from long-term debt	16,563,774	20,000	-	16,583,774
Payments on capital lease obligation	(89,952)	-	-	(89,952)
Contributions of endowments	45,313	71,559	63,904	180,776
Net Cash Provided by (Used in) Financing Activities	<u>(341,098)</u>	<u>71,632</u>	<u>63,904</u>	<u>(205,562)</u>
Change in Cash and Cash Equivalents	231,840	57,251	(75,027)	214,064
Cash and Cash Equivalents, Beginning of Year	<u>900,328</u>	<u>342,700</u>	<u>146,581</u>	<u>1,389,609</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,132,168</u>	<u>\$ 399,951</u>	<u>\$ 71,554</u>	<u>\$ 1,603,673</u>
<b>SUPPLEMENTAL INFORMATION:</b>				
Cash paid during the year for interest	<u>\$ 502,988</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 502,988</u>