CHAPMAN UNIVERSITY AND AFFILIATES

Consolidated Financial Statements

May 31, 2012
(with comparative financial information as of May 31, 2011)

(With Independent Auditors' Report Thereon)

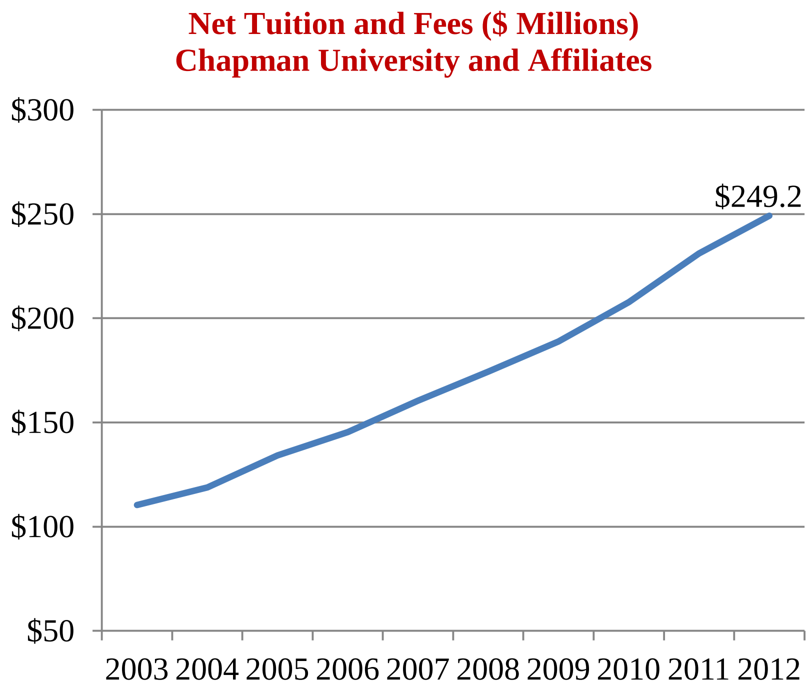
CHAPMAN UNIVERSITY

October 3, 2012

Dear Members of the Chapman University Board of Trustees, the Brandman University Board of Regents, and Friends of Chapman University and Affiliates:

We are pleased to present the 2011-12 Chapman University and Affiliates report of annual consolidated financial performance. Chapman University and Brandman University continue to demonstrate solid and durable operating strength despite the ongoing slow national economic recovery. Chapman University's fiscal year highlights include the achievement of a new institutional record for total annual fundraising and strong student demand for Chapman's distinctive academic programs. Brandman University's fiscal year highlights reflect strong growth in newly created academic programs and strong operating performance that is fueling the successful development of this new institution's infrastructure.

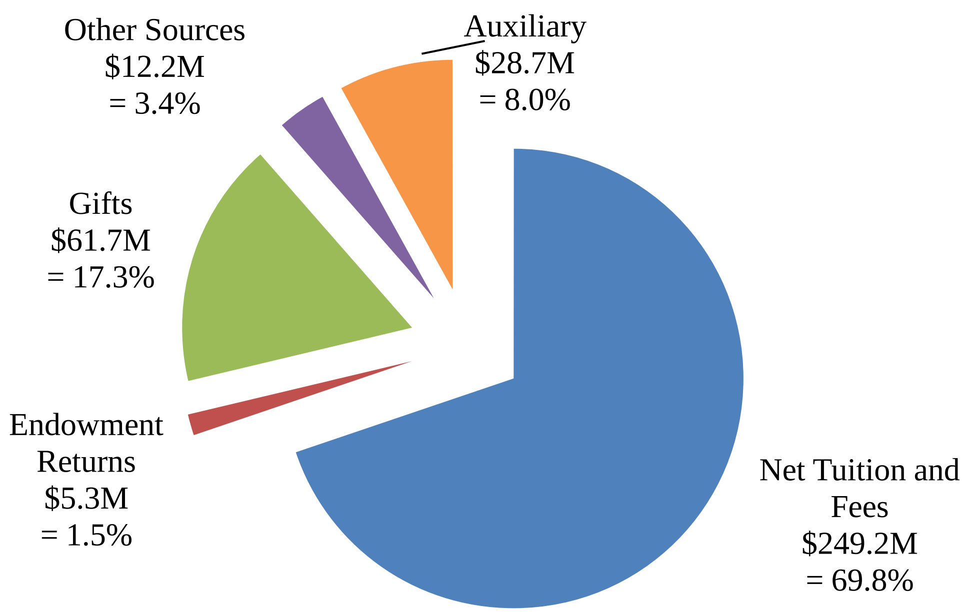
The 2011-12 Financial Statements incorporate the fourth year of fiscal operations for Chapman University's independent affiliate, Brandman University. The statements reflect the consolidated financial activities of both Chapman University and Brandman University. Established in 1958 and part of the Chapman University System, Brandman University is a separate, not-for-profit corporation that is independently accredited by the Western Association of Schools and Colleges (WASC), the California Commission on Teacher Credentialing and, most recently, the Commission on Collegiate Nursing Education (CCNE) for its Doctor of Nursing Practice program that was launched in 2010.



Both universities have created significant student demand for their respective academic programs. Fiscal year 2011-12 is no exception to this multi-year trend. The preceding chart demonstrates that Net Tuition and Fees grew stronger over the past decade even while selectivity was improving. From Fall 2002 to Fall 2011, Chapman's and Brandman's total undergraduate FTE enrollment grew from 5,256 to 7,905, a 50% increase (average annual growth rate of 4.2%). In the same period, total undergraduate, graduate, and Law School FTE enrollment for Chapman and Brandman grew from 10,864 to 12,582, an increase of 16% (average annual growth rate of 1.5%). This accomplishment is remarkable considering recent trends in higher education where fiscal crises have led to furloughs, layoffs, eliminated programs, reduced class offerings, and student waitlists.

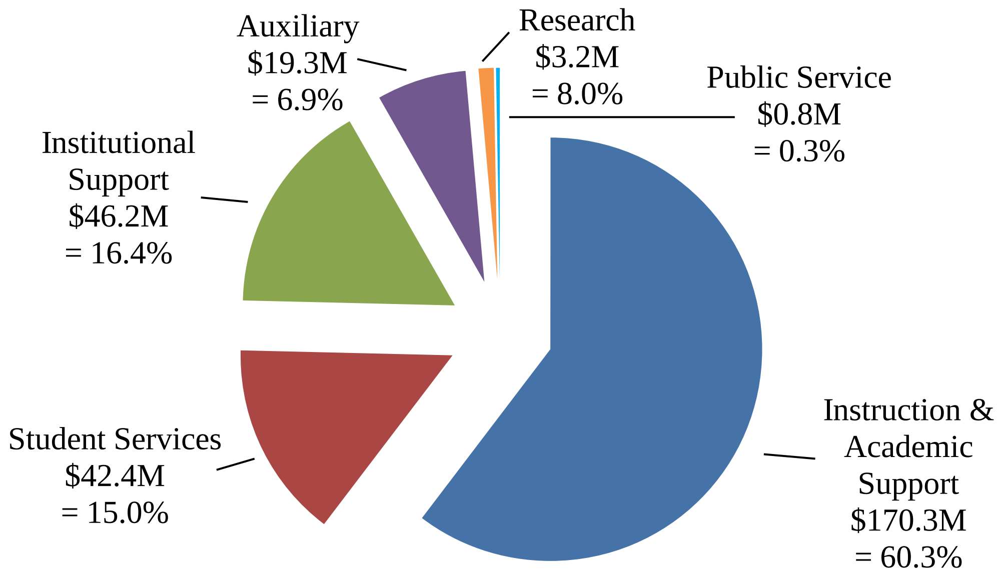
In 2011-12, Net Tuition and Fees (tuition and fees less university-funded scholarships) represented 69.8% ($249.2 million) of Chapman's consolidated revenue. This compares to 76.0% ($231.0 million) in 2010-11.

Revenue
Chapman University and Affiliates



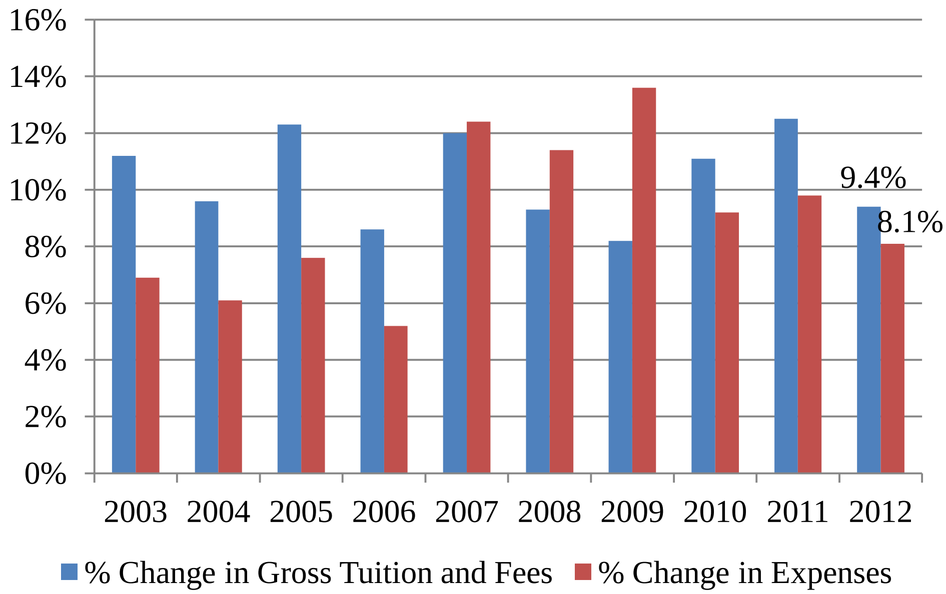
In 2011-12, Instruction and Academic Support comprised 60.3% ($170.3 million) of the system's total expenses, compared to 61.1% ($159.6 million) of total expenses in 2010-11.

Expenses
Chapman University and Affiliates



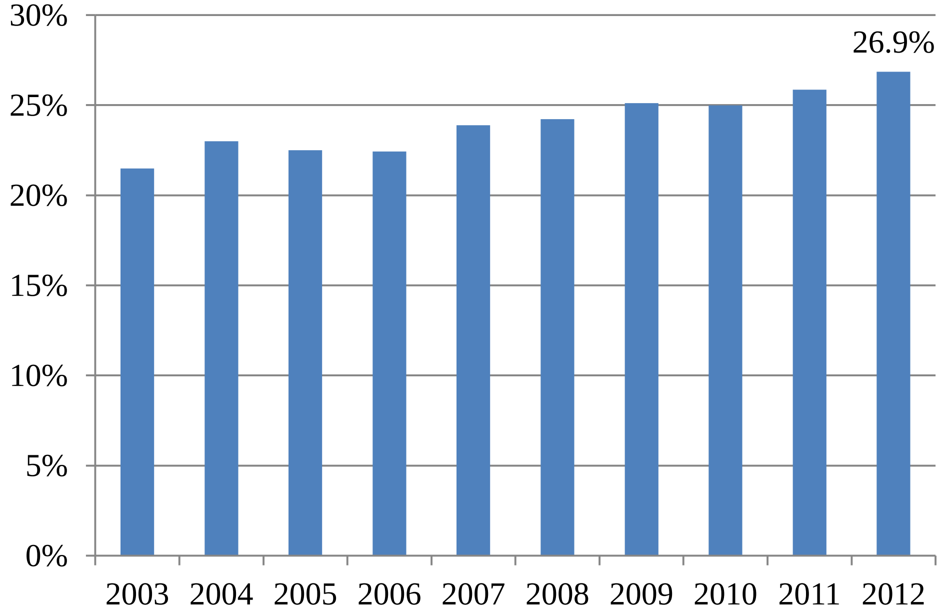
The rate of increase in Chapman University and Affiliates' system-wide annual expenses in 2011-12 was lower than in recent years, even while the system was making investments in academic programs at both institutions and in building Brandman University's infrastructure. One key element of Chapman University and Affiliate's entrepreneurial model is to create academic facilities that match the excellence of the programs they house. In 2011-12 both Chapman and Brandman continued to invest in facilities. All of these investments were made while we continue our gradual return to the typical relationship of revenue to expense increases.

Annual Percentage Change in Gross Tuition and Fees
vs. Annual Percentage Change in Expense
Chapman University and Affiliates



In recent years, Brandman University diversified its program offerings to include a Bachelor of Business Administration, a Master of Business Administration, a Master of Public Administration, and a Doctor of Nursing Practice. In addition, Brandman University was designated by the Department of Education as an eligible Hispanic Serving Institution; its online Master of Business Administration (MBA) program was recognized as one of only fourteen programs named to the Honor Roll in the first-ever edition of Top Online Education Program rankings by U.S. News & World Report; and Brandman's School of Education earned the number ten spot among Faculty Credentials and Training for online graduate programs in Education.

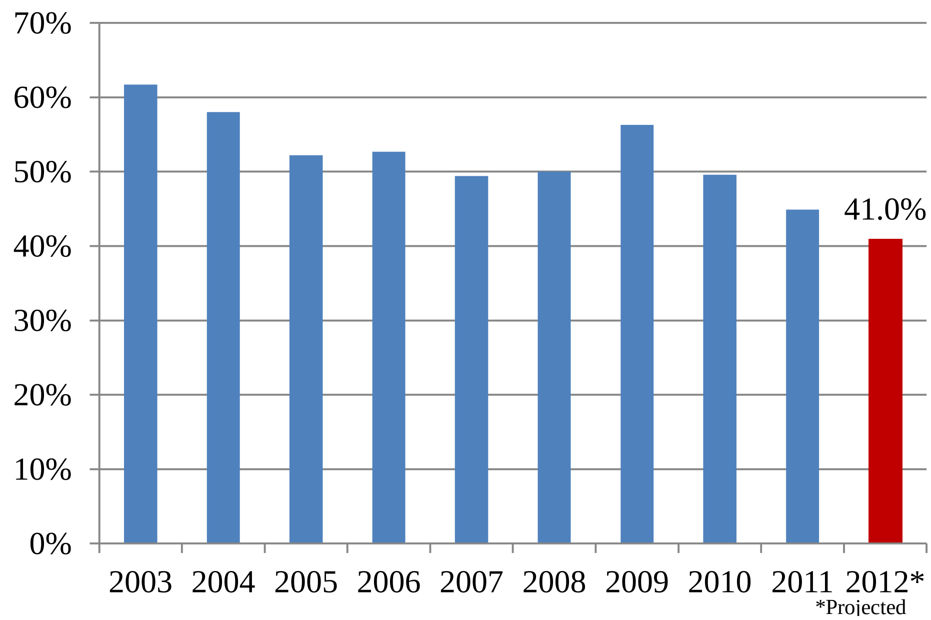
Tuition Discount Rate
Chapman University and Affiliates



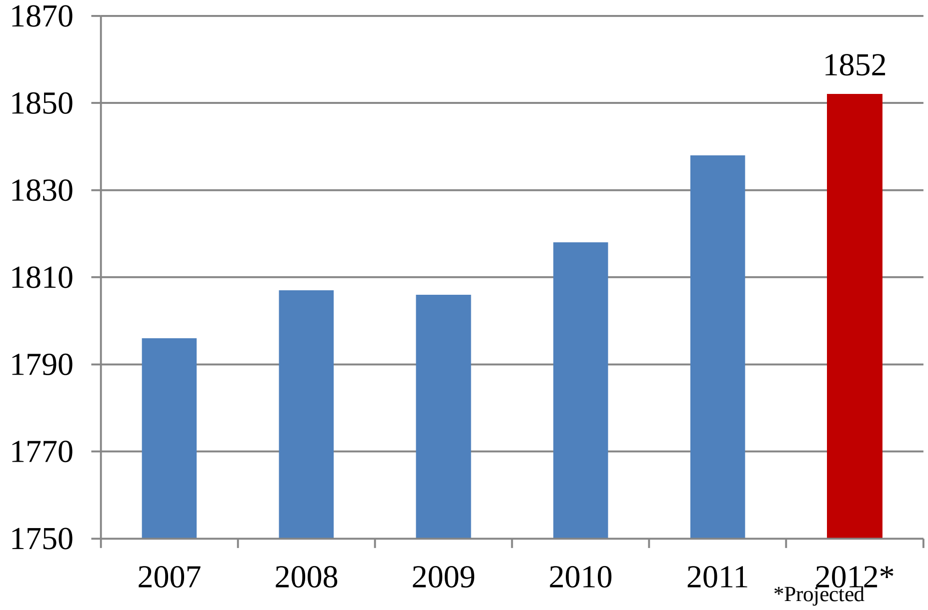
Chapman's 26.9% tuition discount rate in 2012 reflects a continuing commitment to assisting its students. The 10-year trend demonstrates a remarkable degree of stability in the rate over time.

At Chapman University, the quality of entering students has continued to increase while the number of entering students has grown. The declining admission rate reflects an increase in selectivity, and a steadily increasing freshmen SAT average indicates the rising quality of incoming students.

Freshmen Admission Rate
Chapman University

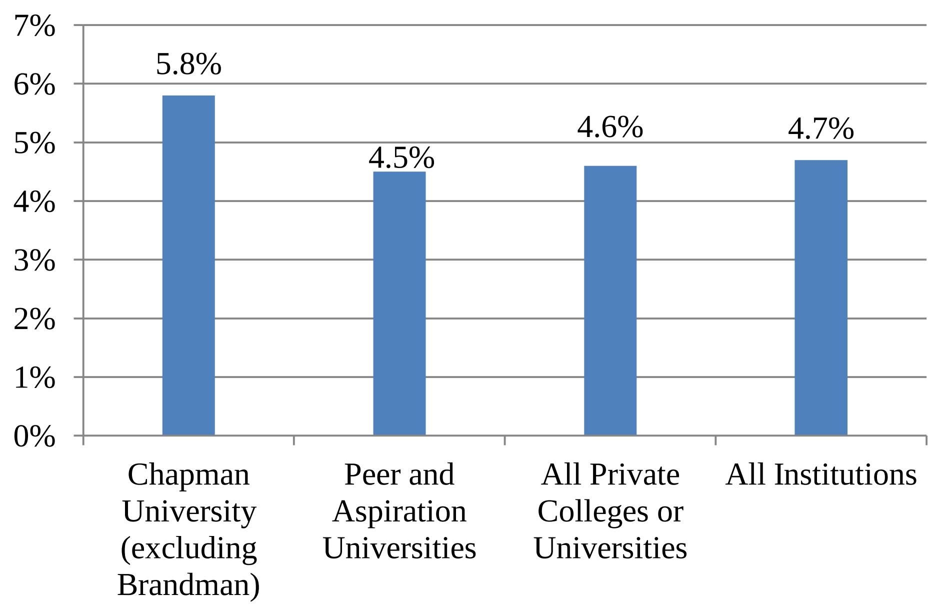


Freshmen SAT Average
Chapman University

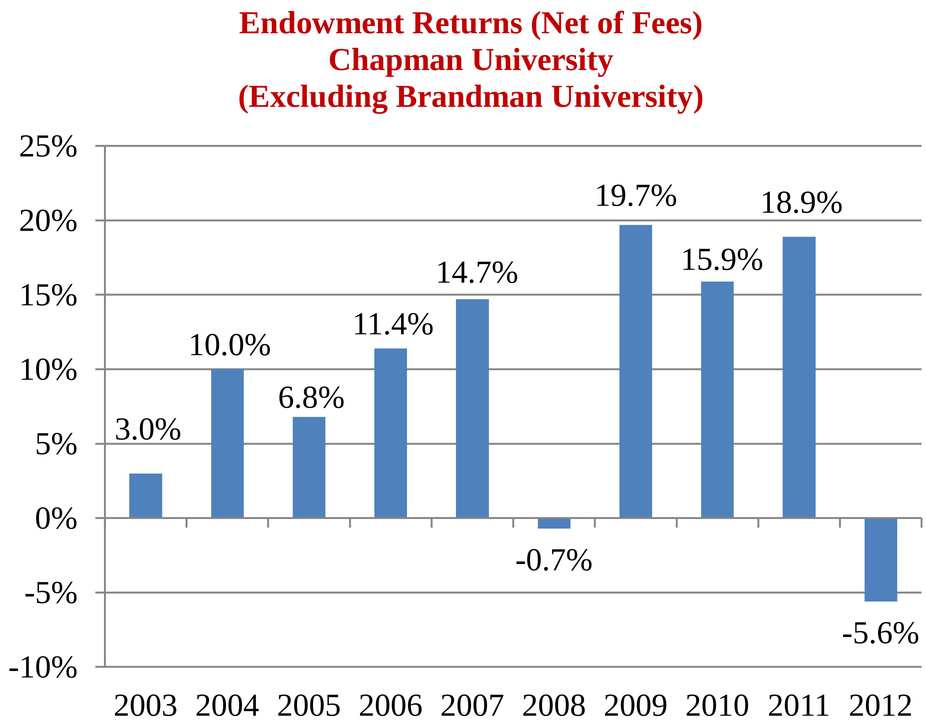


The following chart compares the average five-year return (net of fees) on Chapman's endowment with that of a group of peer and aspiration universities, all private colleges or universities, and all institutions participating in the 2011 National Association of College and University Business Officers (NACUBO)-Commonfund Study of Endowments.

Average Five-Year Return on Endowment (Net of Fees)
As of June 30, 2011



As of May 31, 2012, the one-year return (net of fees) on Chapman University's endowment was negative 5.6%, compared to 18.9% in the previous year.

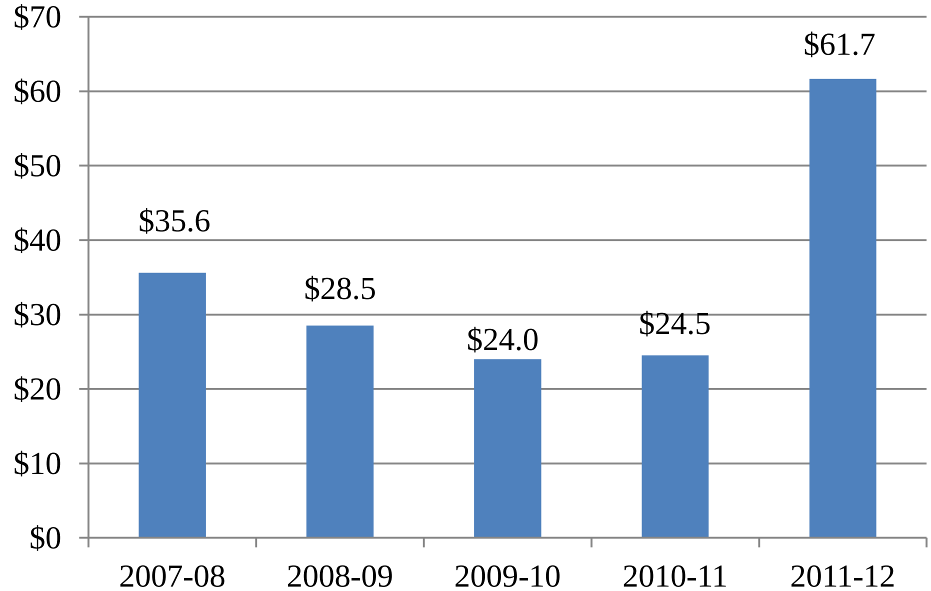


The market value of the endowment was $188.1 million as of May 31, 2012, a decrease of 1.3% over the previous year. Gifts to the endowment decreased from $4.4 million in 2010-11 to $2.3 million in 2011-12.

The University has a 4.5% endowment spending policy over a 5-year rolling average of quarterly market values. The spending formula resulted in $5.3 million of endowment support for programs in 2011-12. In addition, during 2011-12 Chapman University distributed only ordinary income on the few underwater endowment funds remaining from the recent downturn in markets. These conservative strategies allow the University to preserve the endowment's purchasing power for future generations of students.

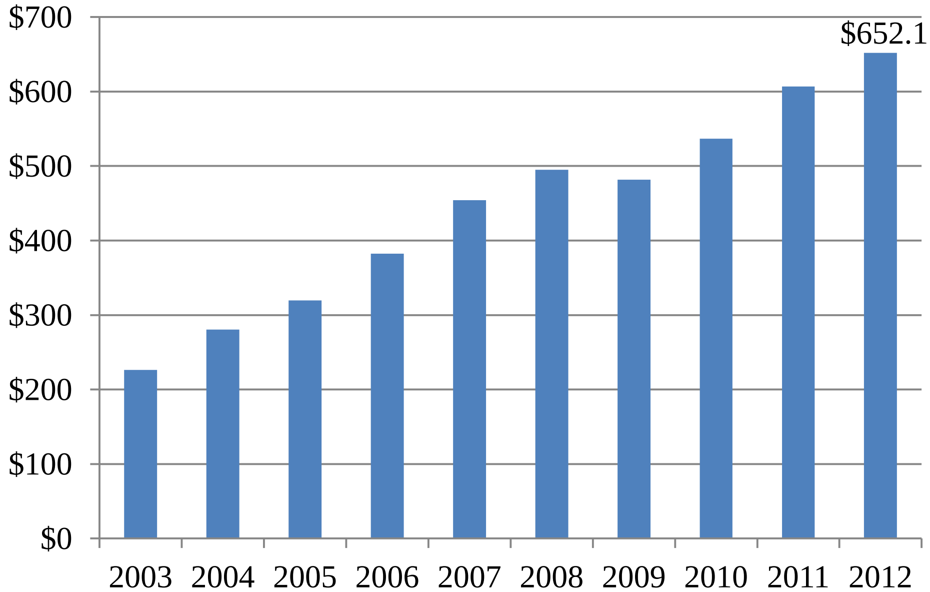
Consolidated enrollment, fundraising, and academic successes have created the foundation for the system's increasing financial strength as shown on the balance sheet. Chapman experienced a phenomenal year for fundraising in 2011-12 with total gifts of $61.7 million, up from $24.5 million the previous year (a one-year increase of over 150%).

Total Gifts
Chapman University and Affiliates
($ Millions)

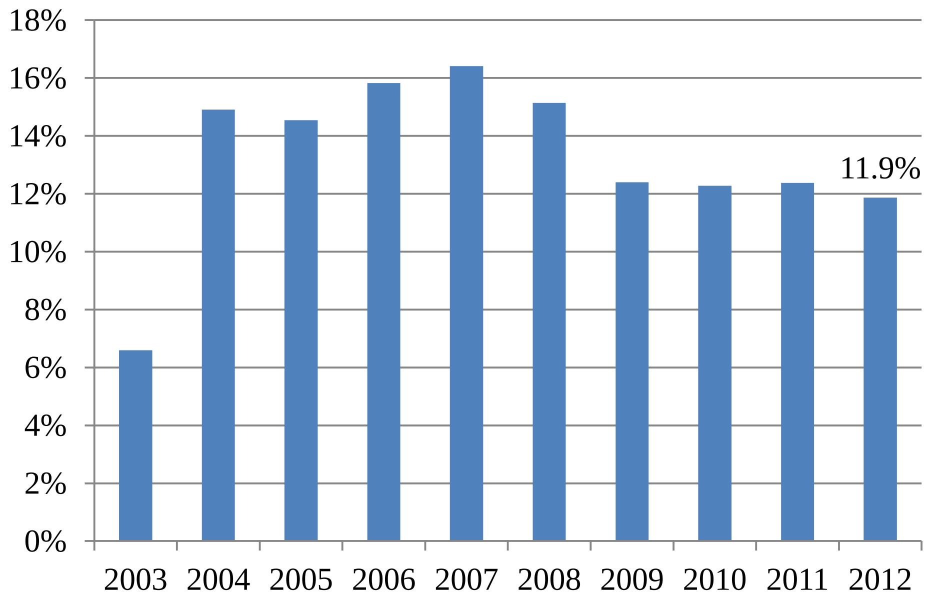


Chapman's business model provides for allocations from the operating budget that are added to endowment and plant assets. These additions have provided a healthy boost to Chapman and Affiliates' Net Assets, increasing from $226.5 million in 2003 to $652.1 million in 2012 (a 188% increase, or an average annual increase of 11.2%). Chapman's Net Assets grew $45.2 million as of May 31, 2012 compared with the prior year.

Total Net Assets
Chapman University and Affiliates
($ Millions)

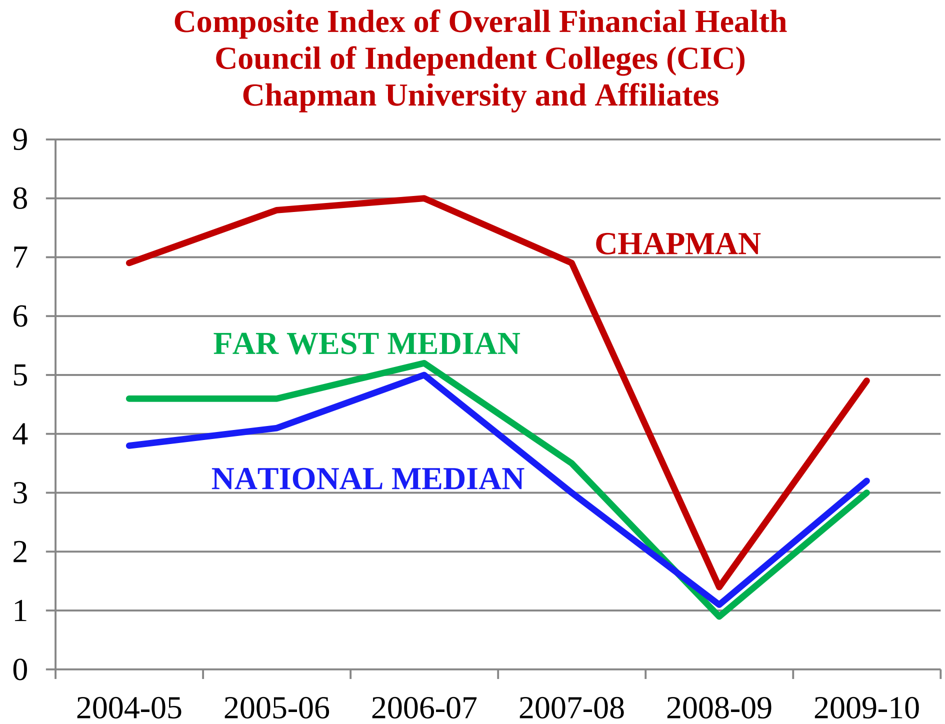


Return on Net Assets*
Chapman University and Affiliates



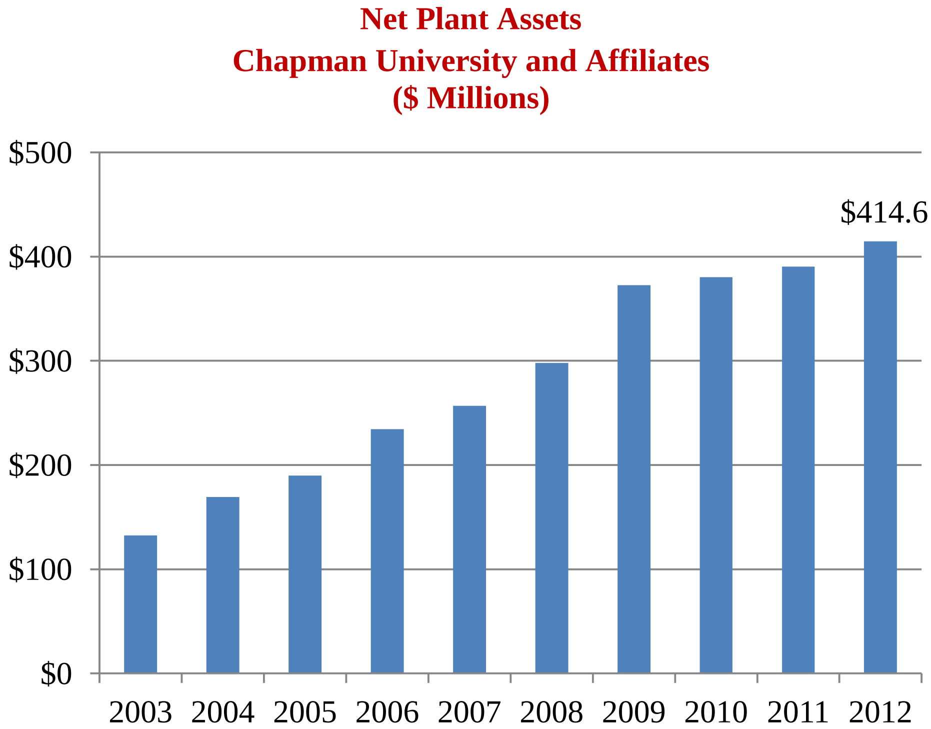
*Compound Annual Growth Rate

The following chart illustrates Chapman's long-term financial results in a broader context. Based on KPMG's Composite Financial Index (a method for combining four common financial ratios into a single measure), The Council of Independent Colleges' Overall Financial Health Index compares Chapman's performance with that of both far west regional universities and with all national independent colleges and universities. A score of 3.0 is considered the threshold for financial health.



Source: The Council of Independent Colleges' "Financial Indicators Tool," July 2012

Chapman University System's entrepreneurial model calls for investments in physical plant over time to support current and new programs.



BUILDING PROJECTS 2003 - 2012

Year of Construction	Building	Purpose	Gross Square Footage
2003	Glass Residence Hall	Residence hall	82,702
2003	Miller Parking Structure	Residence parking	190,574
2004	Leatherby Libraries	Main campus library	100,106
2004	Fish Interfaith Center	Chapel and office space	12,356
2004	Oliphant Hall	College of Performing Arts classrooms and office space	22,764
2004	Public Safety	Office space	1,648
2004	Campus Planning & Operations, Facilities Management, Purchasing & University Services	Office space	21,670
2005	Information Systems & Technology (IS&T)	Office space	15,360
2006	Marion Knott Studios	Film School classrooms, studios, and office space	76,193
2006	Lastinger Parking Structure	Parking	272,000
2006	Wilson Field	Athletics	154,149
2006	Entertainment Technology Center	College of Performing Arts workshops and storage	18,331
2007	Western Cordage Building	Physical Therapy Department and Psychology Department	31,668
2008	Financial Services & University Advancement	Office space	37,170
2008	Allred Aquatics Center	Swimming pool and stadium	62,084
2009	Sandhu Residence/Conference Center & Randall Dining Commons	Residence hall, dining commons, and conference center	198,456
2009	Von Neumann Hall	Math Department office space	6,000
2009	Brandman University - Main	Main campus offices and classrooms	115,000
2012	Argyros Forum Expansion	Add Student Union space	23,361

Center for Science and Technology • Scheduled to Open Fall 2017

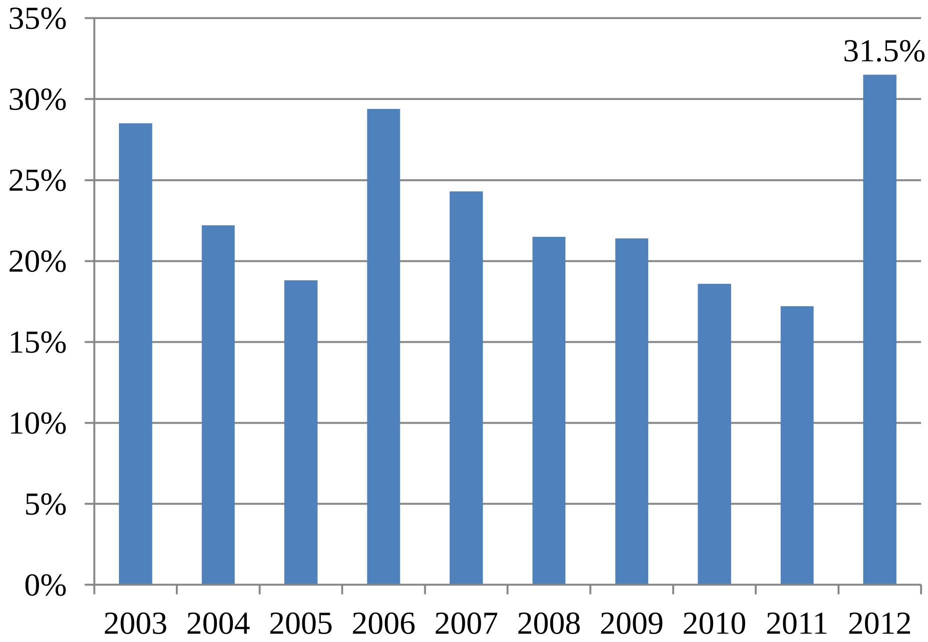
Center for the Arts • Scheduled to Open Spring 2015

Graduate Health Sciences Facility • Scheduled to Open
Building 1 - Spring 2014 and Building 2 - Fall 2015

In 2011-12, the naming of Brandman's Marybelle and S. Paul Musco School of Nursing and Health Professions was accompanied by the completion of a comprehensive, state-of-the-art 14,280 square foot Immersive Learning Simulation Center facility.

Chapman's liabilities totaled $286.8 million as of May 31, 2012. The increase in debt as a percent of net assets to 31.5% in 2012, as shown in the following chart, is attributable to the university's issuance of tax-exempt bonds in the fall of 2011. Proceeds from the $107 million 2011 bond issue were to have financed the construction of a campus residence hall. A recent discovery of historic chemicals at the planned construction site will require remediation, a regulated process which the Administration is carefully managing, and the residence hall project will be moved to another location on campus at a later date.

Debt as a Percent of Net Assets
Chapman University and Affiliates



CHAPMAN
UNIVERSITY

With its focus on academic quality and operational capacity, Chapman University has successfully weathered several financially challenging years and emerged vibrant and fiscally stronger. Continuing high demand for the academic programs of both Chapman University and Brandman University has positioned the system to grow enrollments and provide financial support to students. Chapman's donors continued their strong support of the system and we look forward to an equally robust 2012-13.

Harold W. Hewitt, Jr.
Executive Vice President and Chief Operating Officer
Chapman University

Jan Legoza
Vice Chancellor for Finance & Administration, CFO
Brandman University

KPMG LLP
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Irvine, CA 92618-3391

Independent Auditors' Report

The Board of Trustees
Chapman University:

We have audited the accompanying consolidated statement of financial position of Chapman University and affiliates (the University) as of May 31, 2012, and the related consolidated statements of activities and cash flows for the year then ended. These consolidated financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior year summarized comparative information has been derived from the University's 2011 consolidated financial statements and, in our report dated September 20, 2011, we expressed an unqualified opinion on those consolidated financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Chapman University and affiliates as of May 31, 2012, and the changes in their net assets and their cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2012 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

KPMG LLP

October 3, 2012

CHAPMAN UNIVERSITY AND AFFILIATES

Consolidated Statement of Financial Position

May 31, 2012
(with comparative financial information as of May 31, 2011)

Assets		2012	2011
Current assets:			
Cash and cash equivalents	$	64,285,000	50,635,000
Investments (notes 2 and 3)		36,968,000	36,135,000
Accounts receivable, less allowance for doubtful accounts of $1,605,000 and $1,172,000 in 2012 and 2011, respectively		10,680,000	11,207,000
Current portion of contributions receivable, net (note 4)		19,618,000	6,791,000
Current portion of notes receivable		269,000	252,000
Other current assets		5,261,000	4,716,000
Total current assets		137,081,000	109,736,000
Long-term assets:			
Notes receivable, less current portion and allowance for doubtful notes of $546,000 and $557,000 in 2012 and 2011, respectively		6,133,000	6,984,000
Contributions receivable, less current portion, net (note 4)		76,349,000	63,942,000
Long-term investments (notes 2 and 3)		286,455,000	202,804,000
Plant assets, net (note 5)		414,645,000	390,343,000
Other real property		15,101,000	15,101,000
Other long-term assets		3,172,000	2,482,000
Total long-term assets		801,855,000	681,656,000
Total assets	$	938,936,000	791,392,000
Liabilities and Net Assets			
Current liabilities:			
Accounts payable and accrued liabilities	$	32,958,000	28,803,000
Deferred revenues and student deposits		23,221,000	18,979,000
Current portion of bonds and notes payable (note 6)		5,430,000	3,881,000
Other current liabilities		1,855,000	14,746,000
Total current liabilities		63,464,000	66,409,000
Long-term liabilities:			
Annuities payable, less current portion		2,147,000	2,509,000
Refundable loan programs		2,241,000	2,257,000
Bonds and notes payable, less current portion (note 6)		199,897,000	100,354,000
Liability related to interest rate swaps (notes 3 and 6)		15,308,000	7,401,000
Other long-term liabilities		3,738,000	5,500,000
Total long-term liabilities		223,331,000	118,021,000
Total liabilities		286,795,000	184,430,000
Net assets:			
Unrestricted		394,992,000	400,016,000
Temporarily restricted (note 11)		140,211,000	90,893,000
Permanently restricted (note 11)		116,938,000	116,053,000
Total net assets		652,141,000	606,962,000
Total liabilities and net assets	$	938,936,000	791,392,000

See accompanying notes to consolidated financial statements.

CHAPMAN UNIVERSITY AND AFFILIATES

Consolidated Statement of Activities

Year ended May 31, 2012
(with summarized financial information as of May 31, 2011)

	2012				2011
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Total
Revenues, gains, and other support:					
Tuition and fees	$ 340,796,000	—	—	340,796,000	311,615,000
Less University-funded scholarships	(91,553,000)	—	—	(91,553,000)	(80,546,000)
Net tuition and fees	249,243,000	—	—	249,243,000	231,069,000
Endowment returns designated for operations	1,923,000	3,347,000	—	5,270,000	4,455,000
Other investment income (loss)	(1,433,000)	1,000	—	(1,432,000)	2,883,000
Private gifts, grants, and bequests	9,024,000	49,834,000	2,820,000	61,678,000	24,502,000
Auxiliary enterprises	28,742,000	—	—	28,742,000	28,026,000
Other sources	12,778,000	874,000	—	13,652,000	12,866,000
	51,034,000	54,056,000	2,820,000	107,910,000	72,732,000
Net assets released from donor restrictions	5,276,000	(5,333,000)	57,000	—	—
Total revenues, gains, and other support	305,553,000	48,723,000	2,877,000	357,153,000	303,801,000
Expenses:					
Educational and general:					
Instruction	130,438,000	—	—	130,438,000	120,962,000
Academic support	43,825,000	—	—	43,825,000	41,598,000
Student services	42,354,000	—	—	42,354,000	38,430,000
General institutional support	46,243,000	—	—	46,243,000	41,918,000
Total educational and general expenses	262,860,000	—	—	262,860,000	242,908,000
Auxiliary enterprises	19,330,000	—	—	19,330,000	18,167,000
Total expenses	282,190,000	—	—	282,190,000	261,075,000
Increase from operating activities	23,363,000	48,723,000	2,877,000	74,963,000	42,726,000
Nonoperating activities:					
Endowment returns (loss), net of designation for operations	(6,399,000)	(9,984,000)	(10,000)	(16,393,000)	24,215,000
Change in value of split-interest agreements	—	(157,000)	(14,000)	(171,000)	291,000
Loss on disposition of property and other, net	(3,189,000)	—	—	(3,189,000)	(153,000)
Unrealized loss on interest rate swap related to bonds	(7,907,000)	—	—	(7,907,000)	(574,000)
Building gifts released from restriction	6,108,000	(6,108,000)	—	—	—
Net asset transfer to meet donor matching requirement	(17,000,000)	17,000,000	—	—	—
Recovery of previously reserved pledge	—	—	—	—	5,043,000
Increase in allowance for receivables	—	(156,000)	(1,968,000)	(2,124,000)	(1,429,000)
Increase (decrease) from nonoperating activities	(28,387,000)	595,000	(1,992,000)	(29,784,000)	27,393,000
Change in net assets	(5,024,000)	49,318,000	885,000	45,179,000	70,119,000
Net assets, beginning of year	400,016,000	90,893,000	116,053,000	606,962,000	536,843,000
Net assets, end of year	$ 394,992,000	140,211,000	116,938,000	652,141,000	606,962,000

See accompanying notes to consolidated financial statements.

CHAPMAN UNIVERSITY AND AFFILIATES

Consolidated Statement of Cash Flows

Year ended May 31, 2012
(with comparative financial information as of May 31, 2011)

	2012	2011
Cash flows from operating activities:		
Change in net assets	$ 45,179,000	70,119,000
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Noncash contributions of property, life insurance policies, and investments	(637,000)	(8,814,000)
Contributions restricted for long-term investment	(22,838,000)	(17,965,000)
Interest and dividends restricted for long-term investment	(2,000)	(2,000)
Net realized and unrealized gains (losses) on investments	16,257,000	(27,799,000)
Net realized loss on sale or disposition of property and other assets	3,189,000	153,000
Unrealized loss on interest rate swap related to bonds	7,907,000	574,000
Increase in allowance for receivables	2,124,000	1,429,000
Depreciation	17,333,000	16,003,000
Actuarial gain (loss) on annuity obligations	171,000	(291,000)
Amortization of discounts and premiums on bonds payable	(174,000)	14,000
Increase (decrease) in accounts receivable	517,000	(2,845,000)
(Increase) decrease in other assets	(1,206,000)	96,000
Increase in contributions receivable	(27,360,000)	(1,913,000)
(Decrease) increase in accounts payable, accrued liabilities, and other liabilities	(6,260,000)	9,521,000
(Decrease) increase in annuities payable	(3,000)	99,000
Net cash provided by operating activities	34,197,000	38,379,000
Cash flows from investing activities:		
Proceeds from sales maturities of investments	217,457,000	63,657,000
Purchases of investments	(318,588,000)	(95,709,000)
Proceeds from sales of property	25,000	121,000
Purchases of plant assets	(44,392,000)	(25,929,000)
Disbursements of loans to students	(405,000)	(534,000)
Repayments of loans from students	1,251,000	1,152,000
Net cash used in investing activities	(144,652,000)	(57,242,000)
Cash flows from financing activities:		
Proceeds from issuance of bonds and notes payable	128,868,000	—
Proceeds from contributions restricted for long-term investments	22,838,000	17,965,000
Interest and dividends restricted for long-term reinvestment	2,000	2,000
Payment of bond issuance costs	(1,009,000)	—
Payments of notes and bonds payable	(26,594,000)	(3,444,000)
Net cash provided by financing activities	124,105,000	14,523,000
Net increase (decrease) in cash and cash equivalents	13,650,000	(4,340,000)
Cash and cash equivalents, beginning of year	50,635,000	54,975,000
Cash and cash equivalents, end of year	$ 64,285,000	50,635,000
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest, net of amounts capitalized of $636,000 and $0 for 2012 and 2011, respectively	$ 6,003,000	3,467,000
Supplemental schedules of noncash investing and financing activities:		
Contributions of property	$ —	15,050,000
Notes payable assumed by the University related to the contributed property	—	7,761,000
Contributions of property for plant assets	457,000	214,000
Contributions of life insurance policies	29,000	34,000
Contributions of investments	151,000	1,277,000

See accompanying notes to consolidated financial statements.

(1) Summary of Significant Accounting Policies and Other Matters

(a) Organization

Chapman University and its consolidated affiliates, which include Brandman University, Chapman Singapore Education Centre Pte. Ltd., Chapman University Charitable Giving LLC, Chapman University Enterprises, Inc., and Chapman University Foundation (collectively, the University), are not-for-profit coeducational institutions of higher learning and taxable corporations primarily located in Orange County, California.

(b) Basis of Accounting

The accompanying consolidated financial statements are presented using the accrual basis of accounting.

(c) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Chapman University and its affiliates. All significant intercompany balances and transactions have been eliminated in consolidation.

(d) Donor-Imposed Restrictions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or are restricted by the donor for specific purposes are reported as temporarily restricted support. When restrictions are met, temporarily restricted net assets are classified to unrestricted net assets and recorded as net assets released from restrictions in the accompanying statement of activities. Donor-restricted contributions whose restrictions are met within the fiscal year received are reported as unrestricted support. Permanently restricted net assets represent the portion of net assets resulting from contributions and other inflows of assets whose use is limited by donor-imposed restrictions that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the University.

If a donor restricts University funds, the University reclassifies these unrestricted funds to either Temporarily Restricted or Permanently Restricted based on the donor agreement.

(e) Promises to Give

Unconditional promises to give that are expected to be collected within one year are recorded as contributions receivable at their estimated net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded as a contribution receivable at the present value of their estimated future cash flows. The discounts on those amounts are currently computed using a rate that is commensurate with the risks involved and applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until such time as the conditions are substantially met.

(f) Cash and Cash Equivalents

The University considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents, except for those that have been purchased with donor-restricted funds or designated by the University as endowments, which are considered to be long-term investments.

(g) Plant Assets

Plant assets are stated at cost or estimated fair value at date of donation, net of accumulated depreciation. Depreciation is computed on a straight-line basis over the estimated useful lives of buildings and improvements (15 to 40 years) and equipment (3 to 7 years).

Contributed plant assets are recorded at fair value at the date of donation. If donors stipulate how long the assets must be used, the contributions are recorded as temporarily restricted support and are reclassified to unrestricted net assets when the stipulation ends. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support.

(h) Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed of

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows (undiscounted and without interest) expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. During 2012, $2.9M of assets (construction in progress) were expensed for the Anaconda property (see footnote 7(c)). In 2011, there were no events or changes in circumstances indicating that the carrying amount of long-lived assets may not be recoverable.

(i) Inventories

Inventories are stated at the lower of first-in, first-out cost or market. Inventories of approximately $475,000 and $535,000 are included in other current assets as of May 31, 2012 and 2011, respectively.

(j) Investment Policy

Investments are reflected at fair value. The University uses net asset value (NAV) as a practical expedient for determining fair value of its financial instruments, in cases where appropriate criteria are met.

(k) Fair Value of Financial Instruments

Fair Value Determination

The fair value of the University's financial instruments as of May 31, 2012 represents management's best estimates of the amounts that would be received to sell those assets in an orderly transaction between market participants at that date. Those fair value measurements maximize the use of observable inputs. However, in situations where there are little, if any, observable inputs, management's own judgments about the assumptions of market participants were used in pricing the asset. Those judgments are developed by management based on the best information available in the circumstances.

Although the University uses its best judgment in determining the fair value of financial instruments, there are inherent limitations in any methodology. Therefore, the values presented herein are not necessarily indicative of the amount that the University could realize in a current transaction. Future confirming events could affect the estimates of fair value and could be material to the consolidated financial statements. These events could also affect the amount realized upon liquidation of the investments.

Fair Value Hierarchy

The University's fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (Level I measurements) and the lowest priority to measurements involving significant unobservable inputs (Level III measurements). The three levels of the fair value hierarchy are as follows:

- Level I inputs are quoted prices (unadjusted) in active markets for identical assets that the entity has the ability to access at the measurement date.
- Level II inputs are inputs other than quoted prices included within Level I that are observable for the asset, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other observable inputs that can be corroborated by observable market data. Level II includes government and corporate bonds due to variations in the pricing of such securities due to various factors including current interest rates, spreads, and various trade activity that impact the quoted prices for such holdings.
- Level III inputs are unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the asset.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

(l) Income Taxes

The University and affiliates are exempt from taxation under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code and are generally not subject to federal or state income taxes. However, the University is subject to income taxes on any net income that is derived from a trade or business regularly carried on, and not in furtherance of the purposes for which it was granted exemption. No income tax provision has been recorded as the net income, if any, from any unrelated trade or business, in the opinion of management, is not material to the basic consolidated financial statements taken as a whole.

The University has adopted the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Subtopic 740, *Income Taxes*, related to accounting for uncertainty in income taxes, which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation requires that the entity account for and disclose in the financial statements the impact of a tax position if that position will more likely than not be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The University has evaluated the financial statement impact of tax positions taken or expected to be taken and determined it has no uncertain tax positions that would require tax assets or liabilities to be recorded in accordance with accounting guidance.

The University and its affiliates files income tax returns in the U.S. federal jurisdiction and State of California. With few exceptions, the University is no longer subject to income tax examinations by U.S. federal income tax authorities for the years before 2008 and State of California tax authorities before 2007.

(m) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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 consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(n) Fund-Raising Expenses

The accompanying consolidated statement of activities includes fund-raising expenses of $12,561,000 and $11,145,000 for the years ended May 31, 2012 and 2011, respectively, as a component of general institutional support.

(o) Comparative Data

The consolidated financial statements include prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the University's consolidated financial statements as of and for the year ended May 31, 2011, from which the summarized information was derived.

(p) Functional Expenses

Expenses that can be specifically identified with a specific program or supporting service are charged directly to the related program or supporting service. Expenses that are associated with more than one program or supporting service are allocated based on an evaluation made by management.

(2) Investments

Investments at May 31, 2012 and 2011 consist of the following:

		2012	2011
Money market funds for designated purposes	$	11,455,000	4,094,000
Money market funds for debt reserve		1,283,000	12,000
Money market funds for construction reserves		87,812,000	—
Money market funds for Chapman University Entertainment Investment		65,000	—
Equities		62,538,000	73,359,000
Fixed income mutual funds and investments		68,814,000	64,638,000
Commodities		4,243,000	5,223,000
Limited partnership		—	2,000,000
Venture capital		2,536,000	1,746,000
Private equity		4,554,000	3,755,000
Mezzanine debt		6,184,000	7,346,000
Hedge funds		48,023,000	48,546,000
Real asset funds		21,541,000	23,213,000
Unitrust investments:			
Money market funds		205,000	260,000
Equities		1,778,000	2,501,000
Fixed income mutual fund and investments		2,264,000	2,144,000
Alternative funds		86,000	22,000
Real asset fund		42,000	80,000
Total investments	$	323,423,000	238,939,000

Investment income (loss) consisted of the following for the years ended May 31, 2012 and 2011:

	2012		
	Endowment	**Other**	**Total**
Interest and dividends	$ 3,152,000	1,390,000	4,542,000
Realized and unrealized (losses) gains, net	(13,438,000)	(2,819,000)	(16,257,000)
Less investment expenses	(837,000)	(3,000)	(840,000)
Investment income (loss), net	$ (11,123,000)	(1,432,000)	(12,555,000)
Operating	$ 5,270,000	(1,432,000)	3,838,000
Nonoperating	(16,393,000)	—	(16,393,000)
Investment income (loss), net	$ (11,123,000)	(1,432,000)	(12,555,000)

	2011		
	Endowment	**Other**	**Total**
Interest and dividends	$ 2,788,000	1,626,000	4,414,000
Realized and unrealized (losses) gains, net	26,542,000	1,257,000	27,799,000
Less investment expenses	(660,000)	—	(660,000)
Investment income, net	$ 28,670,000	2,883,000	31,553,000
Operating	$ 4,455,000	2,883,000	7,338,000
Nonoperating	24,215,000	—	24,215,000
Investment income, net	$ 28,670,000	2,883,000	31,553,000

(Continued)

(3) Fair Values of Financial Instruments

The following tables present assets and liabilities that are measured at fair value on a recurring basis at May 31, 2012 and 2011:

Assets	2012	Quoted prices in active markets for identical assets (Level I)	Significant other observable inputs (Level II)	Significant unobservable inputs (Level III)
Money market funds for designated purposes	$ 11,455,000	11,455,000	—	—
Money market funds for debt reserve	1,283,000	1,283,000	—	—
Money market funds – construction reserves	87,812,000	87,812,000	—	—
Money market funds – Chapman University Entertainment investment	65,000	65,000	—	—
Equities:				
U.S. equities	28,004,000	28,004,000	—	—
Global equities	3,998,000	3,998,000	—	—
Global equities – international equity funds	18,255,000	—	18,255,000	—
Emerging market equities	12,281,000	—	12,281,000	—
Fixed income funds:				
Mutual funds	56,282,000	56,282,000	—	—
Bank Loan Funds and TIPS	12,532,000	4,882,000	7,650,000	—
Venture capital	2,536,000	—	—	2,536,000
Private equity	4,554,000	—	—	4,554,000
Mezzanine debt funds	6,184,000	—	—	6,184,000
Hedge funds	48,023,000	—	—	48,023,000
Real asset funds	18,273,000	18,273,000	—	—
Real asset funds – commodity funds	3,268,000	—	3,268,000	—
Commodities	4,243,000	4,243,000	—	—

(Continued)

Assets	2012	Quoted prices in active markets for identical assets (Level I)	Significant other observable inputs (Level II)	Significant unobservable inputs (Level III)
Unitrust investments:				
Money market funds	$ 205,000	205,000	—	—
Equities:				
U.S. equities	1,392,000	1,392,000	—	—
Global equities	386,000	386,000	—	—
Fixed income mutual fund and investments	2,264,000	1,872,000	392,000	—
Alternative funds	86,000	—	86,000	—
Real asset fund	42,000	—	42,000	—
Total assets	$ 323,423,000	220,152,000	41,974,000	61,297,000
Liabilities				
Interest rate swaps	$ (15,308,000)	—	(15,308,000)	—
Total liabilities	$ (15,308,000)	—	(15,308,000)	—

Assets	2011	Quoted prices in active markets for identical assets (Level I)	Significant other observable inputs (Level II)	Significant unobservable inputs (Level III)
Money market funds for designated purposes	$ 4,094,000	4,094,000	—	—
Money market funds for debt reserve	12,000	12,000	—	—
Equities:				
U.S. equities	31,093,000	31,093,000	—	—
Global equities	5,086,000	5,086,000	—	—
Global equities – international equity funds	21,825,000	—	21,825,000	—
Emerging market equities	15,355,000	—	15,355,000	—

Assets	2011	Quoted prices in active markets for identical assets (Level I)	Significant other observable inputs (Level II)	Significant unobservable inputs (Level III)
Fixed income funds:				
Mutual funds	$ 53,372,000	53,372,000	—	—
Bank Loan Funds and TIPS	11,266,000	—	11,266,000	—
Limited partnership	2,000,000	—	—	2,000,000
Venture capital	1,746,000	—	—	1,746,000
Private equity	3,755,000	—	—	3,755,000
Mezzanine debt funds	7,346,000	—	—	7,346,000
Hedge funds	48,546,000	—	—	48,546,000
Real asset funds – mutual funds	19,194,000	19,194,000	—	—
Real asset funds – commodity funds	4,019,000	—	4,019,000	—
Commodities	5,223,000	5,223,000	—	—
Unitrust investments:				
Money market funds	260,000	260,000	—	—
Equities:				
U.S. equities	1,718,000	1,718,000	—	—
Global equities	783,000	783,000	—	—
Fixed income mutual fund and investments	2,144,000	1,243,000	901,000	—
Alternative funds	22,000	—	22,000	—
Real asset fund	80,000	—	80,000	—
Total assets	$ 238,939,000	122,078,000	53,468,000	63,393,000
Liabilities				
Interest rate swaps	$ (7,401,000)	—	(7,401,000)	—
Total liabilities	$ (7,401,000)	—	(7,401,000)	—

Money Market Funds – Investments in money market funds are classified as Level I, as they can be liquidated in the same day, representing the active and ready market for these assets.

U.S. Equities – Investments in U.S. equities are measured at fair value using quoted market prices. They are classified as Level I, as they are traded in active markets for which closing stock prices are readily available.

Global Equities – Investments in global equities are measured at fair value using quoted market prices and classified as Level I, as they are traded in active markets for which closing stock prices are readily available.

Global Equities – International Equity Funds – Investments in this category are classified as Level II, as they are not traded actively; however, the fair value has been estimated using the NAV of this account. The exit frequency of this investment is monthly.

Emerging Markets Equities – Investments in emerging markets equities are classified as Level II, as they are not traded actively; however, the fair value has been estimated using the NAV of this account. The exit frequency of this investment is monthly.

Fixed Income Funds – Mutual Funds – Investments that are classified in Level I are listed on national exchanges or over-the-counter markets and for which quoted market prices are available from sources such as financial publications, the exchanges, or the National Association of Securities Dealers Automated Quotations System (NASDAQ).

Fixed Income Funds – Bank Loan Funds and TIPS – Investments in fixed income mutual funds include investments in debt securities, U.S. government, and municipal obligations, are classified as Level II. Investments are classified in category Level II, when they use significant other observable inputs, particularly dealer market prices for comparable investment as of the valuation date as reflected on account statements issued by investment custodians.

Real Asset Funds – Mutual Fund – Investments in the Real Asset Fund are measured at fair value using quoted market prices and classified as Level I, as they are traded in active markets for which prices are readily available.

Real Asset Funds – Commodities – This category invests in exchange-traded futures and forward contracts in tangible commodities; as such, they are classified as Level II. The fair value of this investment has been estimated using the NAV of this account.

Commodities – Investment in commodities are measured at fair value using quoted market prices. They are classified as Level I, as they are traded in active markets for which closing prices are readily available.

The following table summarizes the fair value measurements of investments in other investment funds that calculate NAV per share (or its equivalent) as of May 31, 2012:

Category of investment	Significant investment strategy	Fair value	Unfunded commitments	Redemption notice period (in days)	Days until exit
Venture capital (1)	U.S. venture capital	$ 2,296,000	220,000		
Venture capital (2)	U.S. funds	240,000	2,760,000		
Private equity (3)	U.S. private equity	2,712,000	2,129,000		
Private equity (4)	Natural resources	1,154,000	1,000,000		
Private equity (5)	Fixed Income Securities	688,000	—		
Mezzanine debt fund (6)	Distressed securities	1,216,000	730,000		
Mezzanine debt fund (7)	Distressed/mezzanine	3,168,000	—		
Mezzanine debt fund (8)	Distressed/mezzanine	1,800,000	150,000		
Hedge funds (9)	U.S. Equity ex Small Cap	19,539,000	—	60	122
Hedge funds (10)	U.S. Equity ex Small Cap	73,000	—	60	122
Hedge funds (11)	Credit-oriented securities	1,704,000	—		
Hedge funds (12)	Distressed securities	1,476,000	—	90	214
Hedge funds (13)	Portfolio funds	2,497,000	—	60	60/304
Hedge funds (14)	Distressed securities	74,000	—	10	30
Hedge funds (15)	U.S. equity	1,231,000	—	45	120
Hedge funds (16)	Multistrategy	1,456,000	—	60	214
Hedge funds (17)	Multistrategy	2,609,000	—	65	122
Hedge funds (18)	U.S. long/short equity	1,469,000	—	90	153
Hedge funds (19)	U.S. long/short equity	1,464,000	—	45	302
Hedge funds (20)	Multistrategy	1,546,000	—	45	214
Hedge funds (21)	Diversified multistrategy	2,093,000	—	90	122/214/304/395
Hedge funds (22)	Multistrategy	1,943,000	—	45	518
Hedge funds (23)	U.S. long/short equity	1,646,000	—	60	214
Hedge funds (24)	Global long/short equity	2,017,000	—	45	214
Hedge funds (25)	Multistrategy	1,570,000	—	60	122/214/304/395
Hedge funds (26)	Global long/short equity	2,082,000	—	45	302
Hedge funds (27)	Global diversified multistrategy	1,534,000	—	30	579
International equity fund (28)	International equity	18,255,000	—	10	30
Emerging markets (29)	International equity	12,281,000	—		30
Marketable real assets (30)	U.S. securities and derivatives	3,268,000	—	5	30
Limited partnership (31)	Fixed Income	7,650,000	—	15	15
Marketable alternative funds (32)	Equity Fund	22,000	—		daily
Marketable alternative funds (33)	US Long/Short Equity	8,000	—		daily
Marketable alternative funds (34)	Merger arbitrage fund	13,000	—		daily
Marketable alternative funds (35)	Commodity Fund	31,000	—		daily
Marketable alternative funds (36)	US Fixed Income	11,000	—		daily
		$ 102,836,000	6,989,000		

(1) This category invests in privately held companies. The fair value of this investment has been estimated based upon the values of the investments held in the private fund. The exit frequency of this investment is 10 years after initial closing.

(2) This category invests in U.S. venture capital funds within multiple industries. The fair value of this investment is estimated using the NAV of this account. The exit frequency of this investment is 12 years, subject to 3 possible one-year extensions after the initial closing.

(3) This category invests in high-end middle market companies in the industrial, healthcare, consumer products, energy, financial services, and media/communications sectors. The fair value of this investment has been estimated using the NAV of this account. The exit frequency of this investment is 10 years after initial closing.

(4) This category invests in 15 to 20 natural resources-oriented private equity funds including oil and gas, timber, minerals and metals, and farmland funds. The fair value of this investment has been estimated using the NAV of this account. The exit frequency of this investment is 15 years after initial closing.

(5) This category invests in fixed income securities, with particular emphasis on mortgage-backed securities. The fair value of this investment has been estimated using the NAV of this account. The maximum term is 10 years and redemptions are not permitted.

(6) This category invests in distressed opportunities in the U.S., Western Europe, and Asia. Investments include the debt and equity securities of entities that are involved in reorganization due to bankruptcy or extraordinary transactions, such as debt restructurings, reorganizations, and liquidation outside bankruptcy. The fair value of this investment has been estimated using the NAV of this account. The exit frequency of this investment is 10 years after initial closing.

(7) This category makes mezzanine and equity investments in energy and energy-related infrastructure projects and companies on a global basis, with an emphasis on the U.S., Canada, Western Europe, and Australia. Investments include loans, production payments, net profits interests, royalty interests, and other forms of debt and equity securities issued by companies globally. The fair value of this investment has been estimated using the NAV of this account. The exit frequency of this investment is 10 years after initial closing.

(8) This category invests in privately placed or publicly traded debt securities and other debt obligations, equity securities, purchased or sold warrants and purchased written or sold put and call options, and other derivative transactions. The fair value of this investment has been estimated using the NAV of this account. The exit frequency of this investment is 10 years after initial closing.

(9) This category invests in stocks within the S&P 500 Index based on intraindustry fundamental analysis with a dedicated focus on intraindustry valuation methodologies. Investments include long positions and over weighted positions in securities of companies within and outside the S&P 500 Index. The fair value of this investment has been estimated using the NAV of this account. The exit frequency of this investment is quarterly.

(10) This category invests in credit-oriented securities perceived as inefficiently priced because of business, financial, or legal uncertainties. Investments include total return high-yield bonds, distressed securities, and convertible securities. Private securities are also included such as bank debt, trade claims, and direct debt. The fair value of this investment has been estimated using the NAV of this account. The exit frequency of this investment is quarterly.

(11) This category invests in a diversified portfolio of U.S. and non-U.S. distressed investments, including debt securities, equity securities, other obligations, and assets of undervalued, operationally challenged, and/or financially troubled companies. The fair value of this investment has been estimated using the NAV of this account. Cash is distributed as investments are liquidated.

(12) This category invests in debt obligations, securities, and assets that are inefficiently priced as a result of business, financial, market, or legal uncertainties, primarily distressed assets, noninvestment grade obligations, and asset-backed securities. The fair value of this investment has been estimated using the NAV of this account. The exit frequency of this investment is annually.

(13) This category invests a significant portion of its assets in securities subject to restructurings, takeovers, exchange offers, spin-offs, financial reorganizations, and other special situations. The fair value of this investment has been estimated using the NAV of this account. The exit frequency of this investment is annually.

(14) This category engages in speculative trading of commodity futures contracts. The fund is a commodity pool as defined in Section 4.10(d)(1) of the Commodity Exchange Act. The fair value of this investment has been estimated using the NAV of this account. The exit frequency of this investment is monthly.

(15) This category engages in long/short trading in all markets of the U.S. sector. The fair value of this investment has been estimated using the NAV of this account. The exit frequency of this investment is quarterly.

(16) This category invests in multistrategies. The fair value of this investment has been estimated using the NAV of this account. The exit frequency of this investment is quarterly.

(17) This category engages primarily in event-driven investments. The fair value of this investment is estimated using the NAV of this account. The exit frequency of this investment is quarterly.

(18) This category invests in predominantly U.S. securities in the technology and consumer sectors. The fair value is estimated using the NAV of this account. The exit frequency of this investment is monthly.

(19) This category engages in long/short trading in a diversified portfolio of U.S. securities. The fair value of this investment is estimated using the NAV of this account. The exit frequency of this investment is quarterly.

(20) This category primarily engages in global event-driven investments. The fair value of this investment has been estimated using the NAV of this account. The exit frequency is quarterly.

(21) This category follows an absolute return approach that combines relative value and arbitrage strategies with opportunistic investments with over half of the capital deployed outside the U.S. The fair value of this investment has been estimated using the NAV of this account. The exit frequency of this investment is quarterly.

(22) This category engages in multistrategy, event-driven investing. The fair value of this investment has been estimated using the NAV of this account. The exit frequency of this investment is annually.

(23) This category engages in long/short, value oriented investment vehicle with a greater focus on the health care and technology industries. The investments consist primarily of publicly traded equities in the U.S. sector. The fair value of this investment is the NAV of this account. The exit frequency of this investment is quarterly.

(24) This category engages in long/short trading in the global sector. The fair value of this investment has been estimated using the NAV of this account. The exit frequency is quarterly.

(25) This category engages in global and opportunistic long/short strategy in distressed debt, value equities, and event equities. The fair value of this investment has been estimated using the NAV of this account. The exit frequency of this investment is quarterly.

(26) This category engages in long/short equity investing across all global markets. The fair value of this investment has been estimated using the NAV of this account. The exit frequency of this investment is quarterly.

(27) This category focuses primarily on event equities, credit value equities, and risk arbitrage. The fair value of this investment has been estimated using the NAV of this account. The exit frequency of this investment is quarterly.

(28) This category invests primarily in a diversified portfolio of stocks of companies and governments domiciled outside the U.S., which the Adviser believes are undervalued. The fair value of this investment has been estimated using the NAV per share of the fund. The exit frequency of this investment is monthly.

(29) This category invests in equity securities of issuers in developing countries. The fair value of this investment has been estimated using the NAV of this account. The exit frequency of this investment is monthly.

(30) This category invests in exchange-traded, U.S. dollar-denominated futures and forward contracts in intangible commodities. The fair value of this investment has been estimated using the NAV of this account. The exit frequency of this investment is monthly.

(31) This category focuses on bank loans. The fair value of this investment is estimated using the NAV of this account. The exit frequency of this investment is bi-monthly, on the 1st and 15th of each month.

(32) This category invests in common stocks. The fund may use options and index futures to reduce its exposure to general market fluctuations. The fair value of this investment is estimated using the NAV of this fund. The exit frequency of this investment is daily.

(33) This category invests in US equities. The fair value of this investment is estimated using the NAV of this fund. The exit frequency of this investment is daily.

(34) This category invests in stocks of companies which are involved in publicly announced mergers, takeovers and other reorganizations. The fair value of this investment is estimated using the NAV of this fund. The exit frequency of this investment is daily.

(35) This category invests in commodity-linked derivative instruments. The fair value of this investment is estimated using the NAV of this fund. The exit frequency of this investment is daily.

(36) This category invests in primarily in US fixed income and floating rate securities. The fair value of this investment is estimated using the NAV of this fund. The exit frequency of this investment is daily.

The following is a reconciliation of investments in which significant unobservable inputs (Level III) were used in determining fair value for the years ended May 31, 2012 and 2011:

Balance at May 31, 2011	$	63,393,000
Purchases and issuances		24,660,000
Sales and settlements		(26,391,000)
Realized gains and losses		2,987,000
Net unrealized gains losses		(3,352,000)
Balance at May 31, 2012	$	61,297,000

Balance at May 31, 2010	$	50,826,000
Purchases and issuances		11,832,000
Sales and settlements		(7,661,000)
Realized gains and losses		1,740,000
Net unrealized gains losses		6,656,000
Balance at May 31, 2011	$	63,393,000

Level III investments consist of alternative investments including limited partnerships, hedge funds, venture capital, private equity investments, and mezzanine debt investments. These investments are classified as Level III as these investments have unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the asset. As such, the University is unable to obtain independent valuations from market sources. Therefore, these investments are valued utilizing NAVs and/or percentage ownership calculations. Level III realized and unrealized gains and losses are reported in the consolidated statement of activities under the line item entitled "Endowment return (losses)

(Continued)

designated for operations" and under nonoperating activities under the line item entitled "Endowment returns (losses), net of designation for operations."

(4) Contributions Receivable

Unconditional contributions receivable include unconditional pledges that have been discounted at rates ranging from 8.00% to 1.01%. The following is a summary of the University's unconditional contributions receivable at May 31, 2012 and 2011:

		2012	2011
Unconditional contributions expected to be collected in:			
Less than one year	$	25,814,000	12,947,000
One to five years		59,585,000	50,369,000
More than five years		67,161,000	62,686,000
		152,560,000	126,002,000
Less:			
Unamortized discount		(39,003,000)	(40,184,000)
Allowance for uncollectible contributions		(17,590,000)	(15,085,000)
Total contributions receivable	$	95,967,000	70,733,000

(5) Plant Assets

Plant assets at May 31, 2012 and 2011 consist of the following:

		2012		
		Cost	Accumulated depreciation	Net
Land	$	74,976,000	—	74,976,000
Buildings and improvements		335,605,000	(67,182,000)	268,423,000
Equipment		124,652,000	(68,814,000)	55,838,000
Construction in progress		15,408,000	—	15,408,000
	$	550,641,000	(135,996,000)	414,645,000

	2011		
	Cost	**Accumulated depreciation**	**Net**
Land	$ 71,097,000	—	71,097,000
Buildings and improvements	314,316,000	(59,549,000)	254,767,000
Equipment	110,601,000	(60,528,000)	50,073,000
Construction in progress	14,406,000	—	14,406,000
	$ 510,420,000	(120,077,000)	390,343,000

(6) Long-term Debt Obligations

(a) Bonds and Notes Payable

Bonds and notes payable at May 31, 2012 and 2011 consist of the following:

	2012	**2011**
Secured by general revenues:		
Variable interest rate, Series 2000 California Educational Facilities Authority Revenue Bonds; due December 1, 2030 interest payable monthly, scheduled optional redemption December 1, 2001 to December 1, 2030 with yearly payments starting at $400,000 to $1,000,000. Interest rates ranged from 0.13% to 0.28% in the current fiscal year.	$ —	14,300,000
Variable interest rate, 2008 Series A California Educational Facilities Authority Revenue Bonds; due October 2036, interest payable monthly, mandatory principal payment due annually ranging from $1,145,000 to $2,845,000 with the final payment due October 1, 2036. Interest rates ranged from 0.10% to 0.39% in the current fiscal year.	48,880,000	50,100,000
Variable interest rate, 2008 Series B California Educational Facilities Authority Revenue Bonds; due October 2026, interest payable monthly, mandatory principal payment due annually ranging from $845,000 to $1,515,000 with the final payment due October 1, 2026. Interest rates ranged from 0.10% to 0.39% in the current fiscal year.	18,180,000	19,100,000

		2012	2011
Variable interest rate, 2008 Series C California Educational Facilities Authority Revenue Bonds; due October 2026, interest payable monthly, mandatory principal payment due annually ranging from $520,000 to $980,000 with the final payment due October 1, 2026. Interest rates ranged from 0.10% to 0.39% in the current fiscal year.	$	11,510,000	12,075,000
Fixed interest rate, Series 2011 California Educational Facilities Authority Revenue Bonds; interest payable semiannually, ranging from $198,375 to $2,349,675; principal payments due annually, ranging from $1,135,000 to $7,935,000 with final payment due April 1, 2031. Interest rates ranged from 2.0% to 5.0% in the current fiscal year. ($100,000,000 face amount of the bonds plus unamortized premium of $7,291,208 at May 31, 2012).		99,005,000	—
Secured by certain plant assets:			
Term loan payable to Bank of America; interest at 1.97%, payments made monthly at $70,434, secured by deed of trust on property in Irvine, CA, remaining principal balance of $10,981,000 due September 30, 2014.		12,407,000	—
Mortgage payable to Commercial Bank of California; interest at 5.5%, payments made monthly at $46,484, secured by deed of trust on property in Irvine, CA, due May 5, 2017, balloon payment June 5, 2017 of $6,767,767.		7,510,000	7,761,000
Mortgage payable to individuals: interest at 7.00%, monthly installments of $8,070, matures December 2012, secured by deed of trust on property in Orange, CA.		46,000	136,000
Mortgage payable to individual: interest at 6.00% paid quarterly, yearly principal installments of $350,000, matures March 2014, secured by deed of trust on property in Orange, CA.		700,000	1,050,000
		198,238,000	104,522,000
Less:			
Current maturities		(5,430,000)	(3,881,000)
Unamortized premium (discount)		7,089,000	(287,000)
Total long-term bonds and notes payable	$	199,897,000	100,354,000

Bonds and notes payable at May 31, 2012 are due as follows:

Year ending May 31:		
2013	$	5,430,000
2014		8,051,000
2015		18,498,000
2016		7,533,000
2017		7,818,000
Thereafter		157,997,000
Total principal		205,327,000
Unamortized premium		(7,089,000)
	$	198,238,000

During the year ended May 31, 2012, the 2000 Series California Educational Facilities Authority Revenue Bonds were refunded as part of the proceeds from the 2011 bond issue.

The 2008 Series A, B, and C California Educational Facilities Authority Revenue Bonds bear interest at a daily interest rate. The bonds are subject to a conversion to a weekly interest rate period or term interest rate period and are subject to mandatory tender purchase upon any such adjustment or conversion. The specific interest rate for each interest rate period is determined by the remarketing agent. Each daily and weekly interest rate will be computed on the basis of a 365/366-day year and actual days elapsed during either such interest rate period, payable on the first business day of each calendar month that commenced on August 1, 2008. Principal, interest, and purchase price of each series of the bonds is supported by an irrevocable letter of credit issued by Bank of America, N.A. Any amount drawn under the letter of credit pursuant to a final drawing, redemption drawing, or scheduled payment drawing is payable immediately after such drawing is honored plus interest at the default rate, on any amount remaining unpaid to the bank from the date such amount becomes due and payable until payment in full. In the event of a liquidity drawing, such will constitute a tender advance that is payable together with interest on the earlier to occur of (a) resale of the bonds, (b) the third anniversary of the liquidity drawing, (c) the stated termination date, or (d) the date of the expiration of the letter of credit. The University will repay the principal amount of each term loan in equal semiannual installments beginning the first day of each six-month period following the date of such term loan. No amounts were drawn or outstanding on the letter of credit during the fiscal years ended May 31, 2012 and 2011. The letter of credit terminates on July 2, 2016.

(Continued)

The 2011 Series California Educational Facilities Authority Revenue Bonds (issued during the current fiscal year) bear interest, calculated on the basis of a 360-day year comprising twelve 30-day months, at a fixed interest rate, depending on maturity date, from 2.0% to 5.0%. Interest on the bonds is payable on April 1 and October 1 of each year, commencing April 1, 2012. The bonds are subject to optional and mandatory redemption prior to their respective stated maturities. The bonds are scheduled to mature on April 1 in the following amounts and bear interest at the following rates per annum:

Maturity date (April 1)	Principal amount	Interest rate
2012	$ 995,000	2.00%
2013	1,135,000	3.00
2014	3,665,000	3.00
2015	3,775,000	3.00
2016	3,895,000	4.00
2017	4,045,000	4.00
2018	4,210,000	5.00
2019	4,420,000	5.00
2020	4,640,000	5.00
2021	4,870,000	5.00
2022	5,120,000	5.00
2023	5,370,000	5.00
2024	5,640,000	5.00
2025	5,920,000	5.00
2026	6,220,000	5.00
2031	36,080,000	5.00

Pursuant to the terms of the California Educational Facilities Authority Series 2008 A, B, and C and 2011 bond indentures, investments include $89,095,000 and $12,000 of bond proceeds, which were held by independent trustees at May 31, 2012 and 2011, respectively.

Total interest expense was $6,003,000 and $3,467,000 for the years ended May 31, 2012 and 2011, respectively, net of amount capitalized.

(b) Interest Rate Swap Agreement

As part of the issuance of the 2008 Bonds, the University entered into an interest rate swap agreement that calls for fixed rates of 3.162%, 3.121%, and 3.212% in exchange of a monthly variable rate of USD-LIBOR-BBA for the Series 2008 A, B, and C Bonds, respectively. There was no cash exchanged at the time of acquisition. The swap entered into by the University covering the 2008 Series A Bonds expires October 2036, and the swaps covering the 2008 B and C Bonds expire as of October 2026.

Changes in the fair value of the interest rate swap agreements are reported as unrealized gains and losses on interest rate swap related to bonds in the nonoperating activities section of the accompanying consolidated statement of activities. The valuation of these agreements resulted in net unrealized losses of $7,907,000 and $574,000 during the years ended May 31, 2012 and 2011, respectively. The corresponding liability related to these agreements totaled $15,308,000 and $7,401,000, and is included as the liability related to interest rate swaps on the accompanying consolidated statement of financial position at May 31, 2012 and 2011, respectively.

(7) Commitments and Contingencies

(a) Lease Commitments

The University has commitments related to operating leases for building facilities and equipment at May 31, 2012 and 2011. All operating leases are noncancelable and expire on various dates through 2019.

Minimum future rental payments under noncancelable operating lease agreements at May 31, 2012 are summarized as follows:

Fiscal year ending May 31:		
2013	$	5,184,000
2014		3,566,000
2015		3,250,000
2016		2,836,000
2017		2,663,000
Thereafter		6,112,000
Total minimum lease payments	$	23,611,000

Total rent expense was $5,587,000 and $5,581,000 for the years ended May 31, 2012 and 2011, respectively.

(b) Contingencies

The University is subject to certain loss contingencies, such as litigation, arising in the normal conduct of its educational activities. In the opinion of management, the liability, if any, for such contingencies will not have a material effect on the University's financial position.

(c) Anaconda Property

In the Fall of 2011, the University discovered chemicals in the ground soil and water table at a property owned by the University on North Cypress Street in Orange, California. Since the discovery, the University has retained an environmental litigation team and an environmental consulting firm to provide guidance in its ongoing legal, regulatory, and remediation efforts.

The process of addressing a discovery of chemical contamination is highly regulated. The University is initially responsible for the remediation and has been subject to regulatory requirements since the

(Continued)

time of discovery, with specific oversight by the Orange County Health Care Agency (OCHCA) and the Regional Water Quality Control Board (RWQCB).

As of the date of the issuance of these consolidated financial statements, the University is not able to estimate the cost of remediation of this condition, or even estimate a reasonable range of costs with any degree of certainty. This is due in part to the ongoing deliberations by the oversight agencies OCHCA and RWQCB concerning remediation. In addition, the nature and extent of the contamination has not been sufficiently characterized and there remain uncertainties that must be addressed before a responsible financial estimate can be prepared.

The University plans to demolish existing buildings at the site which necessarily will require dealing with contaminated soil immediately below the buildings. The oversight agencies have approved an initial plan whereby the University will be able to proceed with the demolition. The plan calls for the shallow soil to be tested and, as appropriate, removed during the demolition project.

The University has determined that the soil contamination occurred prior to its purchase of the parcel, and is concurrently pursuing a remedy from previous owners in the line of title.

(8) Retirement Plan

The University has a defined contribution retirement plan. Employees working at least 20 hours a week are eligible to participate in the plan after 90 days of employment. The University contributes 3% of each employee's eligible annual salary, as defined by the plan. Eligible employees may contribute up to 6% of their eligible salary and the University matches their contributions. The University's total contribution to the plan was $7,525,000 and $7,236,000 for the years ended May 31, 2012 and 2011, respectively.

(9) Related Parties

The University is a recipient of generous support and commitments from many of its constituencies, which are considered related parties and include members of the Board of Trustees, Board of Governors, President's Cabinet, other advisory boards and councils, as well as administration. As a result of irrevocable commitments, a significant number of contributions are expected to be received from related parties in the future. Outstanding contributions receivable from related parties represent $41,759,000 and $39,515,000 as of May 31, 2012 and 2011, respectively.

(10) Split-Interest Agreements

The University has legal title, either in the University's name or as trustee, to charitable remainder trusts. No significant financial benefit can be realized until the contractual obligations are released. The University also receives contributions in exchange for charitable gift annuity contracts.

The University uses an actuarial method of recording these annuities and trust liabilities using discount rates ranging from 2.4% to 10.6%. For charitable gift annuities and charitable remainder trusts, when a gift is received, the present value of future expected payments to the beneficiaries is recorded as a liability included in other current and long-term liabilities based upon life expectancy tables and discount rate assumptions, and the remainder is recorded as a contribution. Contribution revenue recognized from charitable gift annuities and charitable reminder trusts is classified as an increase in temporarily restricted or permanently restricted net assets based on the existence or absence of time or use restrictions placed by the donor upon the University's interest in the assets. Annuity and trust assets are determined annually based on revised fair value, actuarial and earnings data, and the effect of terminated trusts and other agreements. The actuarial adjustment, net of payments to beneficiaries is reported in the consolidated statement of activities as change in value of split-interest agreements.

(11) Endowment

In approving endowment spending and related policies, as part of the prudent and diligent discharge of its duties, the Board of Trustees of the University, as authorized by the California law, has relied upon the actions, reports, information, advice, and counsel taken or provided by its duly constituted committees and duly appointed officers of the University, including University Counsel, and in doing so has interpreted the law to require the preservation of the historic dollar value of donor-restricted endowment funds, absent explicit donor direction to the contrary.

As a result of this interpretation, for accounting and financial statement purposes, the University classifies as permanently restricted net assets the historic dollar value of assets held as donor-restricted endowment, including any subsequent gifts and any accumulations to donor-restricted endowments made in accordance with the direction of the applicable gift instruments.

Investment income and gains and losses on investments are reported as an increase or decrease in temporarily restricted net assets until those amounts are appropriated by the Board of Trustees.

Endowment net asset composition by type of funds as of May 31, 2012 and May 31, 2011 is as follows:

	2012			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Donor-restricted endowments	$ (460,000)	22,999,000	87,664,000	110,203,000
Board-designated endowments	77,867,000	—	—	77,867,000
Total	$ 77,407,000	22,999,000	87,664,000	188,070,000

	2011			
	Unrestricted	**Temporarily restricted**	**Permanently restricted**	**Total**
Donor-restricted endowments	$ (258,000)	32,983,000	85,259,000	117,984,000
Board-designated endowments	72,628,000	—	—	72,628,000
Total	$ 72,370,000	32,983,000	85,259,000	190,612,000

Changes in endowment net assets for the fiscal year ended May 31, 2012 are as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets at May 31, 2011	$ 72,370,000	32,983,000	85,259,000	190,612,000
Investment return:				
Investment income	1,054,000	1,261,000	—	2,315,000
Net depreciation	(5,530,000)	(7,898,000)	(10,000)	(13,438,000)
Total investment return	(4,476,000)	(6,637,000)	(10,000)	(11,123,000)
Contributions	—	—	2,276,000	2,276,000
Appropriation of endowment assets for expenditure	(1,923,000)	(3,347,000)	—	(5,270,000)
Other changes:				
Additions, changes, and transfers per donor designations	—	—	139,000	139,000
Transfers from operations to board-designated endowment funds	11,436,000	—	—	11,436,000
Change in endowment net assets	5,037,000	(9,984,000)	2,405,000	(2,542,000)
Endowment net assets at May 31, 2012	$ 77,407,000	22,999,000	87,664,000	188,070,000

Changes in endowment net assets for the fiscal year ended May 31, 2011 are as follows:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets at May 31, 2010	$ 51,247,000	18,872,000	80,579,000	150,698,000
Investment return:				
Investment income	727,000	1,399,000	2,000	2,128,000
Net appreciation	11,242,000	15,272,000	28,000	26,542,000
Total investment return	11,969,000	16,671,000	30,000	28,670,000
Contributions	—	—	4,414,000	4,414,000
Appropriation of endowment assets for expenditure	(1,895,000)	(2,560,000)	—	(4,455,000)
Other changes:				
Additions, changes, and transfers per donor designations	31,000	—	236,000	267,000
Transfers from operations to board-designated endowment funds	11,018,000	—	—	11,018,000
Change in endowment net assets	21,123,000	14,111,000	4,680,000	39,914,000
Endowment net assets at May 31, 2011	$ 72,370,000	32,983,000	85,259,000	190,612,000

(Continued)

Description of amounts classified as permanently restricted net assets and temporarily restricted net assets

		2012	2011
Permanently restricted net assets:			
The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation for scholarships, department chairs and professorships, centers, library, and others	$	87,664,000	85,259,000
Total student loan funds funded by donors		6,092,000	6,082,000
Annuities and life income funds		455,000	559,000
For educational and general programs		22,727,000	24,153,000
Total permanently restricted net assets	$	116,938,000	116,053,000
Temporarily restricted net assets:			
The portion of perpetual endowment funds subject to a time restriction	$	22,999,000	32,983,000
For plant activities		98,410,000	45,091,000
For annuity and life income funds		2,102,000	2,327,000
For educational and general programs		16,700,000	10,492,000
Total temporarily restricted net assets	$	140,211,000	90,893,000

(a) Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level required by the donor or law. The aggregated deficiencies of this nature for all donor-restricted endowment funds were $460,000 and $258,000 as of May 31, 2012 and May 31, 2011, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of permanently restricted contributions.

(b) Investment and Financial Objectives and Risk Parameters

The primary long-term investment objective of the endowment is to attain an average annual real total return (net of investment management fees) of at least 6% over the long term (a minimum five-year period). Real total return is the sum of capital appreciation (or loss) and current income (dividends and interest) adjusted for inflation by the consumer price index. The Investment Committee strives to achieve these objectives within acceptable risk levels.

Additionally, it is expected that the portfolio's investment return exceeds a custom allocation index or total portfolio blended benchmark, which consists of 25% S&P 500 Index, 14% MSCI EAFE Index, 8% MSCI Emerging Markets Index, 15% HFRI Fund of Funds Diversified Index, 5% Cambridge Associates Venture Capital Mean, 5% Cambridge Associates Private Equity Mean, 10% Real Assets Benchmark, and 10% Fixed Income Benchmark. The primary financial objective of the Endowment is to provide funds for the ongoing support of the operations of the University while providing for safety of principal through diversification of investments. Over the long term, this means providing a stream of relatively predictable, stable, and constant funding in support of annual budgetary needs, and preserving and enhancing the Endowment's real (inflation-adjusted) purchasing power, net of management expenses and spending.

The Endowment's investments shall also be diversified by asset class and within asset classes as well as by manager. The purpose of diversification is to provide reasonable assurance that no manager, asset class, or individual holding could have a disproportionate negative impact on the Endowment's aggregate results.

(c) Spending Policy

The Endowment is managed according to the "total return" concept, which envisions the sources of Endowment spending as being from interest, dividends, and realized capital gains, supplemented by recent donations and campaign gifts.

The University uses a moving average of market values to calculate its annual draw from the Endowment. Currently, the University targets spending at 4.5% of the moving average of the Endowment's market value based on the previous 20 quarter-end portfolio market valuations.

The spending policy is reviewed periodically by the University's Investment Committee to determine whether the spending formula should be adjusted and whether the University's current policy objectives are being met.

In accordance with this policy, the Board of Trustees has authorized the following amounts for the year ended May 31, 2012 and May 31, 2011:

		2012	**2011**
Spending allocation per spending policy:			
Donor-restricted endowments	$	3,347,000	2,560,000
Board-designated endowments		1,923,000	1,895,000
Total spending	$	5,270,000	4,455,000

(12) Subsequent Events

Subsequent to May 31, 2012, the Internal Revenue Service (IRS) rendered a favorable decision on the University's request for relief under the IRS Voluntary Closing Agreement Program (VCAP). The relief requested was to use proceeds from the University's 2011 Municipal Revenue Fixed Rate Bond issue to repurchase outstanding 2008 Variable Rate Demand Bonds (2008 VRDB's). This request resulted from the discovery of historic chemicals at the site intended for a new residence hall as discussed in the preceding footnote (Footnote 7c). In August 2012, the IRS authorized the buy-down of all outstanding 2008 bonds, or $78,570,000, from the 2011 proceeds. This action took place on October 1, 2012. The University's debt is now 90% fixed rate, compared with 54% fixed rate as of May 31, 2012, and the University's total long-term indebtedness is approximately $120,000,000 versus approximately $198,000,000 as of May 31, 2012.

The University has evaluated subsequent events from the balance sheet date through October 3, 2012, the date on which the consolidated financial statements were issued.