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Financial Statements and Report of Independent Certified Public Accountants

Dominican University of California

June 30, 2012
(with summarized financial information for June 30, 2011)

Contents

Audit – Tax – Advisory

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Report of Independent Certified Public Accountants

Board of Trustees
Dominican University of California

We have audited the accompanying statement of financial position of Dominican University of California (the "University") as of June 30, 2012, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the University's 2011 financial statements and, in our report dated November 30, 2011, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants. 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The consolidating information on page 5 is presented for purposes of additional analysis, rather than to present the financial position, results of operations, and cash flows of the university, and is not a required part of the financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures. These additional procedures included comparing and reconciling the 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 established by the American Institute of Certified Public Accountants. In our opinion, the consolidating information is fairly stated, in all material respects, in relation to the financial statements as a whole.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Dominican University of California as of June 30, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

San Francisco, California
November 27, 2012

Statement of financial position

	June 30, 2012			June 30, 2011
	Operating	**Capital (Supplementary)**	**Total**	
Assets				
Current assets:				
Cash and cash equivalents	$ 8,904,325	$ -	$ 8,904,325	$ 7,986,926
Accounts receivable, less allowance for doubtful accounts of $651,963 in 2012 and $715,232 in 2011	1,562,379	12,622	1,575,001	1,979,790
Contributions receivable, current portion	1,078,979	-	1,078,979	759,239
Prepaid expenses and other assets	772,472	-	772,472	320,270
Total current assets	12,318,155	12,622	12,330,777	11,046,225
Noncurrent assets:				
Bond reserve funds	-	3,058,420	3,058,420	3,058,857
Cash held for non-current purposes	-	31,180	31,180	3,007,514
Investments	-	24,566,129	24,566,129	25,443,166
Contributions receivable, net of current portion	-	117,007	117,007	278,937
Notes receivable, less allowance for doubtful accounts of $669,889 in 2012 and $687,908 in 2011	1,323,701	-	1,323,701	1,323,541
Beneficial interest in trusts and bequests	117,611	-	117,611	754,815
Bond issuance costs	-	534,056	534,056	558,888
Property, plant and equipment - net	-	76,279,828	76,279,828	69,179,123
Total assets	$ 13,759,467	$ 104,599,242	$ 118,358,709	$ 114,651,066
Liabilities and net assets				
Current liabilities:				
Accounts payable and accrued liabilities	$ 4,156,246	$ 726,141	$ 4,882,387	$ 4,272,296
Deferred revenues, current portion	1,157,317	95,238	1,252,555	765,411
Bonds payable, current portion	-	598,320	598,320	568,320
Total current liabilities	5,313,563	1,419,699	6,733,262	5,606,027
Long-term liabilities:				
Deferred revenues, net of current portion	-	1,524,810	1,524,810	1,620,048
Asset retirement obligation	-	254,674	254,674	237,764
Federal grants refundable	647,776		647,776	637,830
Bonds payable, net of current portion	-	28,235,312	28,235,312	28,833,632
Mortgage payable	-	5,661,117	5,661,117	3,800,107
Total liabilities	5,961,339	37,095,612	43,056,951	40,735,408
Net assets:				
Unrestricted				
Undesignated	7,141,185	-	7,141,185	6,664,464
Scholarship quasi-endowments	-	1,025,667	1,025,667	1,025,667
Accumulated quasi-endowment gains	-	988,585	988,585	1,152,611
Accumulated donor endowment losses	-	(2,956)	(2,956)	-
Invested in plant	-	42,843,688	42,843,688	37,300,053
Total unrestricted	7,141,185	44,854,984	51,996,169	46,142,795
Temporarily restricted				
Gifts and allocated endowment income	656,943	9,812	666,755	3,827,219
Accumulated donor endowment gains	-	2,954,305	2,954,305	4,517,258
Total temporarily restricted	656,943	2,964,117	3,621,060	8,344,477
Permanently restricted - endowment	-	19,684,529	19,684,529	19,428,386
Total net assets	7,798,128	67,503,630	75,301,758	73,915,658
Total liabilities and net assets	$ 13,759,467	$ 104,599,242	$ 118,358,709	$ 114,651,066

Statement of activities

	Year Ended June 30, 2012				
	Unrestricted	Temporarily Restricted	Permanently Restricted	2012 Total	2011 Total
Operating revenue and gains:					
Tuition and fees	$ 64,648,396	$ -	$ -	$ 64,648,396	$ 60,821,229
Less - scholarships and financial aid	(22,213,115)	-	-	(22,213,115)	(20,007,217)
Net tuition and fees	42,435,281	-	-	42,435,281	40,814,012
Private gifts and grants	980,166	1,222,588	-	2,202,754	1,928,799
Government grants and programs	1,185,186	-	-	1,185,186	1,661,195
Endowment income allocation for operations	152,480	1,292,517		1,444,997	421,567
Net investment income	24,582	-	-	24,582	27,699
Sales and services of auxiliary enterprises	7,125,792	-	-	7,125,792	7,935,034
Other revenue	1,595,842	-	-	1,595,842	1,416,872
Net assets released from restrictions	2,485,493	(2,485,493)	-	-	-
Total operating revenue and gains	55,984,822	29,612	-	56,014,434	54,205,178
Expenses:					
Program services:					
Instruction	21,236,239	-	-	21,236,239	19,568,684
Academic support	4,160,972	-	-	4,160,972	3,866,182
Student services	7,752,819	-	-	7,752,819	7,153,043
Auxiliary enterprises	2,117,233	-	-	2,117,233	2,610,583
Total program services	35,267,263	-	-	35,267,263	33,198,492
Support services:					
Institutional support	8,619,547	-	-	8,619,547	9,175,668
Advancement	2,342,791	-	-	2,342,791	2,223,471
Plant and maintenance	3,740,334	-	-	3,740,334	3,537,759
Depreciation and amortization	3,164,409	-	-	3,164,409	2,663,933
Interest on indebtedness	1,751,343	-	-	1,751,343	1,692,704
Total support services	19,618,424	-	-	19,618,424	19,293,535
Total expenses	54,885,687	-	-	54,885,687	52,492,027
Net increase from operations	1,099,135	29,612	-	1,128,747	1,713,151
Nonoperating revenue and gains:					
Private gifts and grants	(5,511)	1,589,593	256,143	1,840,225	7,700,857
Government grants and programs	-	-	-	-	66,798
Endowment income allocation for operations	(152,480)	(1,292,517)	-	(1,444,997)	(421,568)
Net investment income (loss)	(181,557)	43,681	-	(137,876)	4,090,951
Endowment income allocation for nonoperations	157,058	(157,058)	-	-	-
Net assets released from restrictions	4,936,728	(4,936,728)	-	-	-
Total nonoperating revenue and gains	4,754,238	(4,753,029)	256,143	257,352	11,437,038
Change in net assets	5,853,373	(4,723,417)	256,143	1,386,099	13,150,189
Net assets - beginning of year	46,142,795	8,344,477	19,428,386	73,915,658	60,765,469
Net assets - end of year	$ 51,996,168	$ 3,621,060	$ 19,684,529	$ 75,301,757	$ 73,915,658

The accompanying notes are an integral part of these financial statements.

Statement of cash flows

	Year ended June 30, 2012	Year ended June 30, 2011
Operating activities:		
Change in net assets	$ 1,386,099	$ 13,150,189
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	3,139,577	2,639,102
Gifts of investment securities	(1,279,530)	(1,734,240)
Amortization of bond issuance costs	24,832	24,831
Amortization of bond premium	(13,320)	(13,320)
Provision for (reduction in) uncollectible accounts, net	(95,873)	418,189
Realized and unrealized gain (loss) on investments	489,061	(3,748,593)
Contributions restricted to endowment	(256,143)	(3,130,615)
Contributions restricted to capital asset acquisition	(304,552)	(2,836,002)
Asset retirement obligation	16,910	11,753
Change in:		
Accounts receivable	468,059	532,101
Contributions receivable	(122,295)	(436,335)
Prepaid expenses and other assets	(452,202)	(218,180)
Beneficial interest in trusts	33,453	48,170
Accounts payable and accrued liabilities	302,177	204,681
Deferred revenues	391,906	(47,406)
Net cash provided by operating activities	3,728,159	4,864,325
Cash flows from investing activities:		
Acquisition of plant assets	(9,932,367)	(4,429,942)
Purchases of investments	(20,124,889)	(15,928,725)
Proceeds from sales of investments	20,512,864	13,585,386
Net change in cash designated/restricted for other purposes or long term	2,976,770	(2,854,381)
Payments for notes receivable	(159,352)	(350,083)
Collections from notes receivable	191,799	97,276
Net cash used in investing activities	(6,535,175)	(9,880,469)
Cash flows from financing activities:		
Proceeds from contributions restricted for :		
Investment in endowment	824,377	2,447,165
Investment in plant	1,584,082	4,570,243
Other financing activities:		
Change in federal grants refundable	9,946	87,667
Proceeds from mortgage	2,000,000	-
Retirement of indebtedness	(693,990)	(591,051)
Net cash provided by financing activities	3,724,415	6,514,024
Net increase in cash and cash equivalents	917,399	1,497,880
Cash and cash equivalents, beginning of year	7,986,926	6,489,046
Cash and cash equivalents, end of year	$ 8,904,325	$ 7,986,926
Supplemental cash flow information:		
Interest paid	$ 1,761,353	$ 1,713,575
Non-cash investing activities:		
Noncash adjustment for the change in accounts payable included in acquisition of plant assets	$ 307,914	$ (1,135,455)

Notes to financial statements

Note 1 – Organization and significant accounting policies

Dominican University of California ("Dominican") is an independent University of Catholic heritage. Founded in 1890 by the Dominican Sisters of San Rafael, Dominican enjoys a century-long reputation for excellence in scholarship, research, and community outreach. The mission of Dominican is to educate and prepare students to be ethical leaders and socially responsible global citizens who incorporate the Dominican values of study, reflection, community, and service into their lives. Guided by its Catholic heritage, Dominican is committed to diversity, sustainability, and the integration of the liberal arts, the sciences, and professional programs. Dominican derives no direct support from church or state and depends upon tuition, gifts and grants to fund its operating expenses.

Basis of presentation

Dominican's financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United Stated of America ("GAAP") for not-for-profit organizations.

Dominican utilizes unrestricted, temporarily restricted and permanently restricted net asset classifications for presentation purposes.

Operating and capital classifications

Plant and related debt, net assets restricted or designated for capital purposes and permanently restricted, temporarily restricted and board designated endowment, are reflected as capital assets, liabilities and net assets. All other assets, liabilities and net assets relate to operations.

Cash and cash equivalents

Cash and cash equivalents includes operating cash held in demand deposits and savings accounts, cash designated for acquisition of plant assets and cash reserved for debt service. All cash and cash equivalents in banks and other financial institutions have original maturities of less than three months. For purposes of the statement of cash flows, cash and cash equivalents do not include donor restricted cash held for long-term investment in permanently restricted endowment, for investment in property plant and equipment, or designated for other long-term purposes.

Investments

All debt and equity securities with readily determinable fair values are carried at estimated fair value based on quoted market prices. Transfers into and out of the levels are recognized on the last day of the reporting period. Investments received as gifts are recorded at estimated fair value at the date of the donation. Gains and losses that result from market fluctuations are recognized in the period such fluctuations occur. Realized gains or losses resulting from sales or maturities are calculated on adjusted cost basis. Adjusted cost is the estimated fair value of the security at the beginning of the year, or at the cost purchased during the year. Dividend and interest income are accrued when earned.

Note 1 – Organization and significant accounting policies (continued)

Investments (continued)

Dominican has a policy of appropriating for distribution each year five percent of the endowment market value as of July 1 or the previous year's spending level, whichever is greater, provided that retained earnings are sufficient to allow expenditure without drawing upon the historical cash value of the original principal contribution.

Bond issuance costs

Assets include unamortized bond issuance costs which are amortized through the maturity date on a straight-line basis, which approximates the effective interest method.

Receivables and government funds

Accounts receivable primarily represents the unpaid balance of student tuition and fees. At June 30, 2012 and 2011 the accounts receivable also includes employee receivables of $77,713 to $105,325, respectively. Receivables are reported net of an allowance for doubtful accounts which is calculated as a percentage of the outstanding receivable. The provision for tuition accounts receivable bad debts charged to expense for the years ended June 30, 2012 and 2011 was $235,142 and $157,753, respectively.

A student's account is considered past due if any portion of the receivable balance is outstanding for more than 30 days after the billing date. Interest and late fees are charged on all past due accounts and revenue is recognized at the time the fees are billed. At June 30, 2012 and 2011, student accounts receivable over 360 days past due totaled $1,150,230 and $1,138,308, respectively.

Contributions receivable represents the unpaid balance of donor pledges.

Notes receivable primarily represents the unpaid balance on student loans including institutional loans and loans financed by the Federal Government. At June 30, 2012 and 2011, student loans represented 1.1% of total assets.

At June 30, student loans consisted of the following:

	2012	2011
Federal government programs	$ 1,317,292	$ 1,265,964
Institutional programs	598,585	640,133
Less allowance for doubtful accounts	(669,889)	(687,908)
Net student loan receivable	$ 1,245,988	$ 1,218,189

The University participates in the Perkins and Nursing federal revolving loan programs. The availability of funds for loans under the program is dependent on reimbursements to the pool from repayments on outstanding loans. Funds advanced by the Federal government of $647,776 and $637,830 at June 30, 2012 and 2011, respectively, are ultimately refundable to the government and are classified as liabilities in the statement of financial position. Outstanding loans cancelled under the program result in a reduction of the funds available for loan and a decrease in the liability to the government.

Note 1 – Organization and significant accounting policies (continued)

Receivables and government funds (continued)

At June 30, 2012 and 2011 the following amounts were past due under student loan programs:

	1-60 days past due	61-90 days past due	90 + days past due	Total past due
2012	$ 1,569	$ 2,333	$ 121,937	$ 125,839
2011	$ 1,369	$ 1,480	$ 89,337	$ 92,186

Allowances for doubtful accounts are established based on prior collection experience and current economic factors which, in management's judgment, could influence the ability of loan recipients to repay the amounts per the loan terms. The provision for student loan bad debts charged (credited) to expense for the years ended June 30, 2012 and 2011 was $(18,020) and $632,901 respectively.

Notes receivable additionally represents the unpaid balance on employee loans. As part of a program to attract and retain excellent faculty and senior staff, Dominican provides relocation/housing loans, doctoral development loans, and home mortgage financing assistance. Notes receivable of $77,713 and $105,352 were outstanding at June 30, 2012 and 2011, respectively. The relocation/housing and doctoral development loans are forgivable after specific criteria are met. The home mortgage financing loans are collateralized by deeds of trust on properties concentrated in the region surrounding the University. No allowance for doubtful accounts has been recorded against these loans based on their collateralization and prior collection or forgiveness history.

At June 30, 2012 and 2011, employee loan notes receivable represented 0.1% of total assets. At June 30, 2012 and 2011, there were no amounts past due for employee loan notes receivable.

Property, plant and equipment

Property, plant and equipment are stated at cost, if purchased, or fair market value at date of acquisition, if donated. Depreciation is recorded on assets using the straight-line method over the following useful lives:

Buildings and improvements	25 - 50 years
Equipment, automobiles, fixtures and library books	5-10 years

Unrestricted net assets

Unrestricted net assets represent unrestricted resources available to support Dominican's operations and temporarily restricted resources which become available for use by Dominican in accordance with the intentions of Dominican's donors.

Note 1 – Organization and significant accounting policies (continued)

Temporarily restricted net assets

Temporarily restricted net assets represent contributions that are limited in use by Dominican in accordance with temporary donor-imposed stipulations. These stipulations may expire with time or may be satisfied and removed by the actions of Dominican according to the terms of the contributions. Upon satisfaction of such stipulations, the associated net assets are released from temporarily restricted net assets and recognized as unrestricted net assets.

Permanently restricted net assets

Permanently restricted net assets represent contributions and other assets to be held as investments in perpetuity as directed by donors. The income from these investments is available to support activities of Dominican as designated by such donors. The majority of the permanently restricted net assets have been restricted by donors to provide student financial aid.

Revenue recognition

Student tuition accounts receivable are recorded when students are billed. Tuition revenue is recorded as earned, on a pro rata basis over the applicable teaching period. Tuition and other services which have not been earned at the statement of financial position date are reported as deferred revenue.

Contract and grant revenue which has been awarded to Dominican is recognized as an exchange transaction when the related expenditures are incurred.

Contributions by donors, including unconditional promises to give, are recognized as revenue when the promise is made. Conditional promises to give are not contributions until the conditions on which they depend are substantially met. Unconditional promises to give are donor commitments that are supported by verifiable documentation and contain no ambiguous conditions. If these contributions are to be received after a year and/or over a number of years, they are discounted at a risk-adjusted rate. The discount is amortized and recorded as additional contribution revenue in accordance with the donor imposed restrictions, if any. In addition, an allowance for uncollectible promises, based on past collection experience, is recorded.

Operating activities

Operating revenue and gains include tuition and fees (net of scholarships and financial aid), unrestricted gifts and grants, gifts and grants restricted for programs and scholarships, investment income and net realized gain from operating and project funds and allocated endowment income under the spending policy, and revenue from auxiliary enterprises. Operating expenses include program and support services, interest on indebtedness, and investment management fees.

Nonoperating revenue and gains (losses)

Nonoperating revenue and gains (losses) include gifts and grants designated for endowment or plant and the related investment income and net realized gain, and unrealized gains on investments in excess of the spending policy.

Note 1 – Organization and significant accounting policies (continued)

Functional expense allocations

Certain expenses, such as depreciation and amortization, interest, and plant maintenance operations, are allocated among program services and supporting services based primarily on direct payroll charges. Depreciation and amortization, interest, and plant maintenance operations are reflected separately on the statement of activities and are allocated to functional areas as detailed in the functional expense allocation footnote.

Income taxes

Dominican operates as a not-for-profit organization and has been recognized by the Internal Revenue Service as an organization exempt from income taxation pursuant to the Internal Revenue Code Section 501(c)(3) on its income other than unrelated business income and has also been recognized by the Franchise Tax Board as exempt from state franchise or income tax pursuant to California Tax Code Section 23701d on its income other than unrelated business income.

As required by GAAP, Dominican has identified and evaluated its significant tax positions for which the statute of limitations remain open and determined that there is no material unrecognized benefit or liability to be recorded. The open tax years are the years ended June 30, 2009 through June 30, 2012 for federal tax purposes and the years ended June 30, 2008 through June 30, 2012 for California tax purposes. There have been no material changes in unrecognized benefits as of June 30, 2012 and 2011, nor are any material changes anticipated in the twelve months following June 30, 2012. There have been no related tax penalties or interest, which would be classified as a tax expense in the statement of activities.

Advertising costs

Dominican expenses all advertising costs, including direct response advertising, as they are incurred. Advertising costs for the years ending June 30, 2012 and 2011 were $614,833 and $693,860, respectively.

Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

Fair value of financial instruments

The table below is a summary of fair value estimates for financial instruments, excluding short-term financial assets and liabilities because carrying amounts approximate fair value, and excluding financial instruments recorded at fair value on a recurring basis such as investments. Contributions receivable are recorded at net present value which approximates fair value.

	2012		2011	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Notes receivable	$ 1,323,701	$ 1,037,414	$ 1,323,541	$ 1,037,289
Long-term debt	$ 28,585,000	$ 34,739,398	$ 29,140,000	$ 33,798,603

Note 1 – Organization and significant accounting policies (continued)

Accounting pronouncements

In May 2011, the FASB issued authoritative guidance that amends the existing requirements for fair value measurement and disclosure. The guidance expands the disclosure requirements around fair value measurements categorized in Level 3 of the fair value hierarchy and requires disclosure of the level in the fair value hierarchy of items that are not measured at fair value in the statement of financial position but whose fair value must be disclosed. It also clarifies and expands upon existing requirements for measurement of the fair value of financial assets and liabilities. The guidance is effective for annual periods beginning after December 15, 2011. The University does not expect the adoption of these provisions to have a significant effect on its financial statements.

Summarized financial information

The financial statements include certain 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 GAAP. Accordingly, such information should be read in conjunction with Dominican's financial statements for the year ended June 30, 2011, from which the summarized information is derived.

Note 2 – Cash held for capital purposes

A portion of the Dominican's cash balance represents donations or endowment income held for capital purposes. At June 30, cash held for investment in capital assets was:

	2012	2011
Science equipment	$ 8,347	$ 223,861
Athletic fields	-	2,783,653
Funds to be invested for permanent endowment purposes	22,833	-
	$ 31,180	$ 3,007,514

Note 3 – Investments

Dominican's investments are carried at fair value and consist of the following at June 30:

	2012	2011
Equity securities:		
Large cap funds	$ 14,429,392	$ 13,143,369
Mid cap funds	817,694	668,310
Small cap funds	233,592	781,823
International developed	596,357	1,108,826
Emerging markets	94,748	916,276
Other equity securities	271,829	479,636
Total equity securities	16,443,612	17,098,240
Corporate debt securities	2,607,704	2,605,777
U.S. Treasury securities	1,733,749	1,572,999
Government mortgage backed securities	1,131,631	1,483,536
Other fixed income securities	1,099,818	1,305,837
Cash and money market funds	1,549,614	1,376,777
Total investments	$ 24,566,129	$ 25,443,166

Total investment income (loss) and net realized/unrealized gains (losses) of $(113,294) for the year ended June 30, 2012 was comprised of operating and nonoperating components of $ 24,582 and $(137,876), respectively. Total investment income and net realized/unrealized gains of $4,118,650 for the year ended June 30, 2011 was comprised of operating and nonoperating components of $27,699 and $,4,090,951, respectively

Dominican recorded investment expenses of $39,435 and $73,332 for the years ended June 30, 2012 and 2011, respectively.

Under Dominican's endowment spending policy, $1,602,055 and $477,518 were allocated for use during the years ended June 30, 2012 and 2011, respectively. For financial assets and liabilities that are re-measured and reported at fair value at each reporting period, fair value is defined as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A hierarchal disclosure framework prioritizes and ranks the level of market price observability used in measuring investments at fair value. Investments measured and reported at fair value are classified and disclosed in one of the following categories:

Level I – Quoted prices are available in active markets for identical investments as of the reporting date. The type of investments included in Level I are publicly traded equity securities. Dominican does not adjust the quoted price for these investments even in situations where it holds a large position and a sale could reasonably impact the quoted price.

Note 3 – Investments (continued)

Level II – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date.

Level III – Pricing inputs are unobservable and include situations where there is little, if any, market activity for the investment. Fair values for these investments are estimated by management using valuation methodologies that consider a range of factors, including but not limited to the price at which each investment was acquired, the nature of the investment, local market conditions, trading values on public exchanges for comparable securities, current and projected operating performance, financial condition and financing transactions subsequent to the acquisition of the investment. Investments that are included in this category generally are privately held debt and equity securities.

The following table summarizes the valuation of Dominican's investments by the above fair value hierarchy levels as of June 30, 2012:

	Level I	Level II	Total
Equity securities:			
Large cap funds	$ 14,429,392	$ -	$ 14,429,392
Mid cap funds	817,694	-	817,694
Small cap funds	233,592	-	233,592
International developed	596,357	-	596,357
Emerging markets	94,749	-	94,749
Other equity securities	271,829	-	271,829
Total equity securities	16,443,613	-	16,443,613
Corporate debt securities	2,334,660	273,044	2,607,704
U.S. Treasury securities	1,733,749	-	1,733,749
Government mortgage backed securities	263,635	867,997	1,131,632
Other fixed income	1,074,468	25,349	1,099,817
Cash and money market funds	1,549,614	-	1,549,614
Total investments	$ 23,399,739	$ 1,166,390	$ 24,566,129

Note 3 – Investments (continued)

The following table summarizes the valuation of Dominican's investments by the above fair value hierarchy levels as of June 30, 2011:

	Level I	Level II	Total
Equity securities:			
Large cap funds	$ 13,143,369	$ -	$ 13,143,369
Mid cap funds	668,310	-	668,310
Small cap funds	781,823	-	781,823
International developed	1,108,826	-	1,108,826
Emerging markets	916,276	-	916,276
Other equity securities	479,636	-	479,636
Total equity securities	17,098,240	-	17,098,240
Corporate debt securities	2,335,797	269,980	2,605,777
U.S. Treasury securities	1,572,999	-	1,572,999
Government mortgage backed securities	976,433	507,103	1,483,536
Other fixed income	1,275,268	30,569	1,305,837
Cash and money market funds	1,376,777	-	1,376,777
Total investments	$ 24,635,514	$ 807,652	$ 25,443,166

Note 4 – Endowment funds

Dominican's endowment consists of approximately 110 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law

The Board has interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") which became a law in California on January 1, 2009, replacing Uniform Management of Institutional Funds Act ("UMIFA"), 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 the interpretation, Dominican 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 Dominican in a manner consistent with the standard of prudence prescribed by UPMIFA.

Note 4 – Endowment funds (continued)

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

1) Duration and preservation of the fund
2) Purposes of Dominican and the donor-restricted endowment fund
3) General economic conditions
4) Possible effect of inflation and deflation
5) Expected total return from income and the appreciation of investments
6) Other resources of Dominican
7) Investment policies of Dominican

Endowment net asset composition by type of fund as of June 30, 2012:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$ (2,956)	$ 2,954,305	$ 19,684,529	$ 22,635,878
Board designated endowment funds	2,014,252	-	-	2,014,252
Total funds	$ 2,011,296	$ 2,954,305	$ 19,684,529	$ 24,650,130

Changes in endowment net assets for the fiscal year ended June 30, 2012:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year	$ 2,178,279	$ 4,517,261	$ 19,428,386	$ 26,123,926
Investment return:				
Investment income	40,960	320,221	-	361,181
Net depreciation (realized and unrealized)	(55,462)	(433,600)	-	(489,062)
Total investment loss	(14,502)	(113,379)	-	(127,881)
Contributions	-	-	256,143	256,143
Appropriation of endowment assets for expenditure	(152,481)	(1,449,577)	-	(1,602,058)
Endowment net assets, end of year	$ 2,011,296	$ 2,954,305	$ 19,684,529	$ 24,650,130

Endowment net asset composition by type of fund as of June 30, 2011:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$ -	$ 4,517,258	$19,428,386	$23,945,644
Board designated endowment funds	2,178,278	-	-	2,178,278
Total funds	$ 2,178,278	$ 4,517,258	$19,428,386	$26,123,922

Note 4 – Endowment funds (continued)

Changes in endowment net assets for the fiscal year ended June 30, 2011:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year	$ 1,752,493	$ 1,308,750	$ 16,297,771	$ 19,359,014
Investment return:				
Investment income	45,869	317,352	-	363,221
Net appreciation (realized and unrealized)	473,392	3,275,198	-	3,748,590
Total investment return	519,261	3,592,550	-	4,111,811
Contributions	-	-	3,130,615	3,130,615
Appropriation of endowment assets for expenditure	(93,476)	(384,042)	-	(477,518)
Endowment net assets, end of year	$ 2,178,278	$ 4,517,258	$ 19,428,386	$ 26,123,922

Description of amounts classified as permanently restricted net assets and temporarily restricted net assets (endowment funds only)

Funds with deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires Dominican to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were $2,956 as of June 30, 2012. There were no such deficiencies as of June 30, 2011. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of permanently restricted contributions received.

Return objectives and risk parameters

Dominican has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that Dominican must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board, the endowment assets are invested in a manner that is intended to earn returns higher than its target benchmark index. The target benchmark is based upon the actual asset allocation and the applicable investment style. The following guidelines are used to evaluate the endowment performance:

Equities – the total rate of return of the equity portion of the portfolio should exceed the return of the S&P 500 Index on a risk-adjusted basis over a full market cycle (typically defined as a three to five year period).

Fixed Income – the total rate of return of the fixed portion of the portfolio should exceed the return of Barclays Capital Aggregate Bond Index on a risk-adjusted basis over a full market cycle (typically defined as a three to five year period).

Note 4 – Endowment funds (continued)

Strategies employed for achieving objectives

To satisfy its long-term rate of return objectives, Dominican 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). Dominican targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending policy and how the investment objectives relate to spending policy

Dominican has a policy of appropriating for distribution each year five percent of the endowment market value as of July 1 or the previous year's spending level, whichever is greater, provided that retained earnings are sufficient to allow expenditure without drawing upon the historical cash value of the original principal contribution. In establishing this policy, Dominican considers the long-term expected return on its endowment. In order to reconcile both, the overall qualitative objective and the spending policy, the endowment shall seek to earn (net of fees) over a reasonably long time frame, a total return equal to the sum of inflation plus the spending rate. This is consistent with Dominican's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return. Dominican appropriated for distribution seven percent of the endowment market value as of July 1 for the year ended June 30, 2012. No similar exception to the policy was approved for the year ended June 30, 2011.

Note 5 – Contributions receivable

Contributions receivable consist of the following at June 30,:

	2012	2011
Due within one year	$ 447,364	$ 177,226
Due in one to five years	825,842	938,494
	1,273,206	1,115,720
Less: discount for present value	(13,560)	(21,758)
	1,259,646	1,093,962
Less: allowance for doubtful accounts	(63,660)	(55,786)
Net contributions receivable	$ 1,195,986	$ 1,038,176

All contributions receivable associated with capital projects are shown as non-current on the statement of financial position. Dominican recorded the long-term portion of contributions receivable based on the discounted value of the receivable using a discount rate of 0.76%.

Note 6 – Beneficial interest in trusts and bequests

Dominican is named as a beneficiary of certain trusts created from estates. The trusts will mature and Dominican will receive its portion of the trust upon the death of the income beneficiaries. The trusts are managed by third party trustees.

Note 7 – Property, plant and equipment

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

	2012	2011
Buildings and improvements	$ 84,922,682	$ 76,224,886
Equipment, automobiles and fixtures	15,823,963	14,087,315
Library books	2,576,642	2,480,541
Total	103,323,287	92,792,742
Less: accumulated depreciation	(31,640,815)	(28,501,238)
Net depreciable assets	71,682,472	64,291,504
Land	4,405,137	4,405,137
Construction in progress	192,219	482,482
Property, plant and equipment - net	$ 76,279,828	$ 69,179,123

Depreciation expense for the years ended June 30, 2012 and 2011 was $3,139,577 and $2,639,102, respectively.

Note 8 – Asset retirement obligation

Dominican recognizes the cost associated with the eventual remediation and abatement of asbestos utilized within construction of certain buildings located on campus. The cost of the abatement was estimated following a campus-wide assessment. At June 30, 2012 and 2011, the asset retirement obligation was $254,674 and $237,764, respectively. For the years ended June 30, 2012 and 2011, the accretion of interest associated with the conditional asset retirement obligation totaled $12,544 and $11,753, respectively.

Note 9 – Bonds payable

Dominican is obligated under the following commitments as of June 30,:

	2012	2011
California Educational Facilities Authority ("CEFA 07") bond (3.75% to 5.00%) maturing through February 2031 (including premium)	$9,473,632	$9,946,952
California Educational Facilities Authority ("CEFA 06") bond (4.00% to 5.00%) maturing through December 2036	19,360,000	19,455,000
Total	28,833,632	29,401,952
Less: current portion, including premium	(598,320)	(568,320)
Bonds payable, net of current portion	$28,235,312	$28,833,632

Principal payments on the CEFA bonds are due as follows:

Year ending June 30:	CEFA 07	CEFA 06	CEFA 07 premium	Total
2013	$ 485,000	$ 100,000	$ 13,320	$ 598,320
2014	515,000	100,000	13,320	628,320
2015	540,000	105,000	13,320	658,320
2016	410,000	275,000	13,320	698,320
2017	430,000	290,000	13,320	733,320
Thereafter	6,845,000	18,490,000	182,032	25,517,032
	$ 9,225,000	$ 19,360,000	$ 248,632	$ 28,833,632

A portion of Dominican's property, plant and equipment is pledged as collateral for the CEFA bonds payable, along with a general pledge of gross revenues. The CEFA bond agreements contain covenants which require, among other things, that Dominican maintain certain financial ratios, certain enrollment levels and its accreditation with the Western Association of Schools and Colleges. As of June 30, 2012 and 2011, Dominican was in compliance with the required bond covenants.

Total interest expense incurred for CEFA bond debt service was $1,428,268 and $1,452,463 for the years ended June 30, 2012 and 2011, respectively.

As of June 30, 2012 and 2011, Dominican held funds from the bond issuances of $3,058,421 and $3,058,857, respectively. These funds are designated based on the requirements of the bond agreements for capital improvements and future bond payments.

Note 10 – Mortgage payable

In July 2007, Dominican entered into a mortgage with Wells Fargo Bank on the Magnolia House in the amount of $4,000,000. Remaining principal balances at June 30, 2012 and 2011 were $3,740,445 and $3,800,107, respectively. The 30-year note is interest-only for the first 10 years. The interest rate is 6.26%. Fully amortized payments of $29,260 per month begin in 2017. Dominican began interest payments in September 2007, and opted to make interest and principal payments beginning in April 2008.

In July 2011, Dominican entered into a mortgage with First Republic Bank on the Barowsky House in the amount of $2,000,000. The interest rate is 4.5% on this 15-year note. The amortized payments of $15,300 per month began in September 2011.

Principal payments on the First Republic mortgage are due as follows:

Year ending June 30:		
2013	$	99,198
2014		103,755
2015		108,521
2016		113,506
2017		118,721
Thereafter		1,376,971
Total	$	1,920,672

Note 11 – Line of credit

Dominican has a $2,000,000 unsecured revolving credit agreement that matures in May 2013. As of June 30, 2012 and 2011, no amounts were outstanding on this line of credit.

Note 12 – Agency funds

Certain receipts of financial aid funds from government grants and programs are treated as pass-through agency funds and are therefore not included as revenues or financial aid in the statement of activities. The receipt and use of these pass-through funds are as follows for the years ended June 30,:

		2012		2011
Federal Pell grant program:				
Revenue	$	2,208,355	$	2,214,072
Less expenses		(2,208,355)		(2,214,072)
Total	$	-	$	-
California grant program:				
Revenue	$	2,834,806	$	2,910,607
Less expenses		(2,834,806)		(2,910,607)
Total	$	-	$	-

Note 13 – Unrestricted net assets

The Board has unrestricted net assets for the following purposes at June 30,:

	2012	2011
Invested in plant	$ 42,843,688	$ 37,300,053
Accumulated quasi-endowment gains	988,585	1,152,611
Scholarship quasi-endowments	1,025,667	1,025,667
Total designated	44,857,940	39,478,331
Accumulated donor endowment losses	(2,956)	-
Undesignated	7,141,185	6,664,464
Total unrestricted	$ 51,996,169	$ 46,142,795

Note 14 – Temporarily and permanently restricted net assets

Temporarily restricted net assets are available for the following purposes at June 30:

	2012	2011
Education and general	$ 656,943	$ 627,329
Plant, equipment and deferred maintenance	9,812	3,199,890
Accumulated donor endowment earnings	2,954,305	4,517,258
Total designated	$ 3,621,060	$ 8,344,477

Permanently restricted net assets are invested in perpetuity as follows at June 30,:

Endowments	$ 19,684,529	$ 19,428,386

Earnings on permanently restricted endowments are restricted for use in providing scholarships and financial aid to students, for education and general expenses, and for specific capital improvements.

Note 15 – Net assets released from restrictions

Temporarily restricted net assets were released from donor restrictions and recorded in operating and nonoperating activities during the years ended June 30, by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors as follows:

	2012	2011
Scholarship and financial aid	$ 1,053,278	$ 476,888
Expended for plant, equipment and deferred maintenance	4,936,728	355,571
Utilized for the following purposes:		
Instruction	985,875	536,276
Academic support	100,336	57,591
Student services	251,141	65,501
Institutional support	94,863	203,051
Total released from restriction	$ 7,422,221	$ 1,694,878

Note 16 – Operating leases

Dominican has outstanding operating leases for housing, computer equipment, and automobiles. At June 30, 2012, the future minimum payments under non-cancelable operating leases are as follows:

Year ending June 30:	
2013	$ 85,591
2014	78,817
2015	68,147
2016	20,418
2017	19,331
Thereafter	4,794
Total	$ 277,098

Total rental expense incurred was $200,581 and $115,312 for the years ended June 30, 2012 and 2011, respectively.

Note 17 – Functional expense allocation

Plant and maintenance, depreciation and amortization and interest expense for the years ended June 30, 2012 and 2011 are reported separately on the statement of activities. If plant and maintenance, depreciation and amortization and interest expense was allocated to functional expense classifications based on direct payroll charges, the program and support services would have increased as follows:

	Year ended June 30, 2012				
	Expenses	Plant and manitenance	Depreciation and amortization	Interest expense	Total
Program services:					
Instruction	$ 21,236,239	$ 2,081,913	$ 1,761,347	$ 974,818	$ 26,054,317
Academic support	4,160,972	321,873	272,312	150,711	4,905,868
Student services	7,752,819	580,579	491,183	271,845	9,096,426
Auxiliary enterprises	2,117,233	11,704	9,902	5,480	2,144,319
Support services:					
Institutional support	8,619,547	572,509	484,356	268,067	9,944,479
Advancement	2,342,791	171,756	145,309	80,422	2,740,278
Total	$ 46,229,601	$ 3,740,334	$ 3,164,409	$ 1,751,343	$ 54,885,687

	Year ended June 30, 2011				
	Expenses	Plant and manitenance	Depreciation and amortization	Interest expense	Total
Program services:					
Instruction	$ 19,568,684	$ 1,981,316	$ 1,491,931	$ 947,996	$ 23,989,927
Academic support	3,866,182	293,986	221,371	140,663	4,522,202
Student services	7,153,043	554,330	417,410	265,229	8,390,012
Auxiliary enterprises	2,610,583	13,886	10,456	6,644	2,641,569
Support services:					
Institutional support	9,175,668	521,017	392,326	249,290	10,338,301
Advancement	2,223,471	173,224	130,439	82,882	2,610,016
Total	$ 44,597,631	$ 3,537,759	$ 2,663,933	$ 1,692,704	$ 52,492,027

Note 18 – Retirement plan

Dominican provides retirement benefits through TIAA/CREF, a multi-employer defined contribution plan (the “Plan”). All eligible employees, as defined by the Plan document, are qualified to participate. Dominican’s contribution to the Plan for the years ended June 30, 2012 and 2011 was $1,546,882 and $1,443,090, respectively.

Note 19 – Related parties

The Dominican Sisters of San Rafael provided personnel to Dominican for instruction and administration. For the years ended June 30, 2012 and 2011, Dominican paid these costs directly to the individual Sisters providing the services, in the amount of $191,045 and $163,219, respectively. Additionally, Dominican made rental payments for usage of the Santa Sabina Center, which is owned by The Dominican Sisters of San Rafael, of $ $47,500 for the year ended June 30, 2011. No such payments were made for the year ended June 30, 2012.

Notes receivable at June 30, 2012 and 2011 includes $77,713 and $105,352, respectively, which represents the amounts due from staff and faculty for relocation advances and loans under a doctoral development program. Loans do not contain interest provisions, unless there is a default of terms or repayment, if applicable.

Dominican receives contributions from board trustees and members of management, who are considered related parties. Contribution revenue from related parties was $1,912,777 and $3,188,711 for the years ending June 30, 2012 and 2011, respectively. Contribution receivable balances were $943,674 and $880,251 from related parties at June 30, 2012 and 2011, respectively.

During the years ended June 30, 2012 and 2011, Dominican paid the approximate amounts of $22,290 and $82,000, respectively, for legal services rendered to a law firm of which a Dominican trustee is a partner.

Note 20 – Commitments and contingencies

Dominican has various commitments and is contingently liable in connection with claims and contracts arising in the normal course of its activities. In addition, Dominican receives funds from and administers various federal and state government funded programs which are subject to audit by the cognizant governmental agencies. Dominican management believes that the outcome of such matters will not have a significant effect on the financial position or results of activities of Dominican. At June 30, 2012, Dominican did not have any remaining commitments for various plant and equipment acquisitions.

Note 21 – Concentrations of risk

To address concentration of market risk in the investment area, Dominican maintains a formal investment policy which sets out performance criteria, investment guidelines and requires review of the investment managers' performance. Investments are maintained by a bank trust department and are managed by two investment managers, who have the responsibility for investing the funds in various investment alternatives.

Financial instruments which potentially subject Dominican to concentrations of credit risk consist principally of cash and investments. During the year, Dominican regularly maintained cash balances in excess of federally insured limits. Dominican has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Concentrations of credit risk with respect to accounts receivable and notes receivable are limited due to the larger number of students comprising Dominican's current and former students. Dominican maintains an allowance for potential credit losses and such losses have been within management's expectation.

Note 22 – Conditional promises to give

Conditional promises to give made by donors are not included as support until the conditions are substantially met. There were conditional promises to give of $290,000 at June 30, 2011. There were no such conditional promises to give at June 30, 2012. Dominican has also been named as a beneficiary of certain revocable wills and trusts, where the amount and date of expected future contributions to be received is not determinable. Accordingly, these conditional promises to give are not included in total support, revenue, and gains on the accompanying statement of activities at June 30, 2011.

Note 23 – Subsequent events

In November 2012, Dominican received notice from a board trustee of an intention to give $8,000,000 for the renovation of Meadowlands Hall into a health sciences facility.

Dominican has evaluated subsequent events for the period from June 30, 2012 through November 27, 2012, the date the financial statements were issued, and has determined that no further subsequent events have occurred of a nature that would require recognition or disclosure.