Report of Independent Auditors and Financial Statements for

University of San Diego

June 30, 2011 and 2010

MOSS-ADAMS LLP

Certified Public Accountants | Business Consultants

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REPORT OF INDEPENDENT AUDITORS

To the Board of Trustees
University of San Diego

We have audited the accompanying statements of financial position of the University of San Diego (the "University") as of June 30, 2011 and 2010, and the related statements of activities and cash flows for the years 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free 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, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University at June 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Moss Adams LLP

San Diego, California
October 24, 2011

UNIVERSITY OF SAN DIEGO

STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2011 AND 2010
(IN THOUSANDS)

	2011	2010
Assets		
Cash and cash equivalents	$ 2,560	$ 1,930
Short-term investments	105,474	71,812
Accounts and loans receivable, net	40,625	40,860
Other assets	9,926	9,734
Contributions receivable, net	21,918	15,147
Property, plant, and equipment, net	461,736	469,723
Long-term investments	330,253	275,479
Total assets	$ 972,492	$ 884,685
Liabilities		
Accounts payable and accrued expenses	$ 38,214	$ 41,969
Deferred tuition revenue	19,690	16,158
Other liabilities	22,730	25,400
Bonds payable	181,953	185,030
Refundable advances	11,039	10,559
Total liabilities	273,626	279,116
Net Assets		
Unrestricted	440,557	383,043
Temporarily restricted	104,133	74,132
Permanently restricted	154,176	148,394
Total net assets	698,866	605,569
Total liabilities and net assets	$ 972,492	$ 884,685

UNIVERSITY OF SAN DIEGO

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2011
(IN THOUSANDS)

	2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING				
Revenues and other additions:				
Tuition and fees	$ 288,548	$ -	$ -	$ 288,548
Less: tuition discounts and financial aid	(83,720)	-	-	(83,720)
Net tuition and fees	204,828	-	-	204,828
Sales and services of auxiliary enterprises	45,245	-	-	45,245
Grants and contracts	13,135	-	-	13,135
Contributions	8,174	3,327	3,411	14,912
Investment return distributed	506	5,446	-	5,952
Investment income	1,111	-	-	1,111
Other revenue	3,414	-	141	3,555
Total revenues	276,413	8,773	3,552	288,738
Net assets released from restrictions for operations	9,464	(9,464)	-	-
Total revenues and other additions	285,877	(691)	3,552	288,738
Expenses:				
Educational programs	137,132	-	-	137,132
Research	3,077	-	-	3,077
Athletics and recreation	12,968	-	-	12,968
Public service	3,728	-	-	3,728
Auxiliary enterprise expenses	40,005	-	-	40,005
Management and general expenses	56,837	-	-	56,837
Total expenses	253,747	-	-	253,747
Increase (decrease) in net assets from operations	32,130	(691)	3,552	34,991
NON-OPERATING				
Investment return:				
Investment income	18,197	31,980	3	50,180
Less: investment return distributed	(506)	(5,446)	-	(5,952)
Total non-operating investment return	17,691	26,534	3	44,228
Contributions from non-operating activities	-	6,954	2,227	9,181
Unrealized gain on interest rate swap	4,897	-	-	4,897
Other non-operating changes	2,796	(2,796)	-	-
Increase in net assets from non-operating activities	25,384	30,692	2,230	58,306
INCREASE IN NET ASSETS	57,514	30,001	5,782	93,297
NET ASSETS				
Beginning of year	383,043	74,132	148,394	605,569
End of year	$ 440,557	$ 104,133	$ 154,176	$ 698,866

UNIVERSITY OF SAN DIEGO

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2010
(IN THOUSANDS)

	2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING				
Revenues and other additions:				
Tuition and fees	$ 266,940	$ -	$ -	$ 266,940
Less: tuition discounts and financial aid	(75,965)	-	-	(75,965)
Net tuition and fees	190,975	-	-	190,975
Sales and services of auxiliary enterprises	46,057	-	-	46,057
Grants and contracts	9,424	-	-	9,424
Contributions	4,858	4,111	1,546	10,515
Investment return distributed	549	7,637	-	8,186
Investment income	2,737	-	-	2,737
Other revenue	3,046	-	156	3,202
Total revenues	257,646	11,748	1,702	271,096
Net assets released from restrictions for operations	11,175	(11,175)	-	-
Total revenues and other additions	268,821	573	1,702	271,096
Expenses:				
Educational programs	131,443	-	-	131,443
Research	2,091	-	-	2,091
Athletics and recreation	12,859	-	-	12,859
Public service	3,574	-	-	3,574
Auxiliary enterprise expenses	41,393	-	-	41,393
Management and general expenses	57,685	-	-	57,685
Total expenses	249,045	-	-	249,045
Increase in net assets from operations	19,776	573	1,702	22,051
NON-OPERATING				
Investment return:				
Investment income (loss)	12,659	19,923	(125)	32,457
Less: investment return distributed	(549)	(7,637)	-	(8,186)
Total non-operating investment return	12,110	12,286	(125)	24,271
Contributions from non-operating activities	-	7,520	(71)	7,449
Unrealized loss on interest rate swap	(6,355)	-	-	(6,355)
Other non-operating changes	(3,012)	2,887	-	(125)
Increase (decrease) in net assets from non-operating activities	2,743	22,693	(196)	25,240
INCREASE IN NET ASSETS	22,519	23,266	1,506	47,291
NET ASSETS				
Beginning of year	360,524	50,866	146,888	558,278
End of year	$ 383,043	$ 74,132	$ 148,394	$ 605,569

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UNIVERSITY OF SAN DIEGO

STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2011 AND 2010
(IN THOUSANDS)

	2011	2010
OPERATING ACTIVITIES		
Changes in net assets	$ 93,297	$ 47,291
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	15,323	14,989
Net provision for losses on receivables	912	280
Net realized and unrealized gains on long-term investments	(52,658)	(35,352)
Net unrealized (gains) losses on interest rate swap	(4,897)	6,355
Contributions restricted for long-term investments	(3,358)	(1,637)
Contributions and investment income restricted for revolving student loan fund	(17)	(20)
Contributions restricted for investment in property, plant, and equipment	(2,488)	(3,317)
Changes in operating assets and liabilities:		
Receivables	(2,095)	(5,085)
Other assets	(419)	(505)
Contributions receivable	(6,771)	(4,344)
Accounts payable and accrued expenses	(3,755)	(282)
Deferred tuition revenue	3,532	(4,782)
Other liabilities	1,001	102
Net cash provided by operating activities	37,607	13,693
INVESTING ACTIVITIES		
Proceeds from maturities/sales of investments	290,313	333,136
Purchases of investments	(326,091)	(333,152)
Purchase of property, plant, and equipment	(7,110)	(26,556)
Net cash (used in) investing activities	(42,888)	(26,572)
FINANCING ACTIVITIES		
Principal payments on bonds payable	(4,185)	(3,693)
Advances for government loan funds	480	668
Net disbursements of student loans	1,418	1,247
Proceeds from note payable	2,335	5,455
Contributions restricted for long-term investments	3,358	1,637
Contributions and investment income restricted for revolving student loan fund	17	20
Contributions restricted for investment in property, plant, and equipment	2,488	3,317
Net cash provided by financing activities	5,911	8,651
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	630	(4,228)
CASH AND CASH EQUIVALENTS		
Beginning of year	1,930	6,158
End of year	$ 2,560	$ 1,930

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	2011	2010
Cash paid for interest	$ 9,612	$ 8,079

Note 1 – Nature of Operation and Significant Accounting Policies

The University of San Diego (the "University") is an independent Catholic university chartered in 1949 under the nonprofit public benefit corporation law and is governed by its Board of Trustees. In 1972, the San Diego College for Women merged with the University of San Diego College for Men forming the University. The University includes a College of Arts and Sciences and five professional schools: the School of Business Administration, the School of Leadership and Education Sciences, the School of Law, the Philip Y. Hahn School of Nursing and Health Science, and the Joan B. Kroc School of Peace Studies.

Financial Statement Presentation: The University classifies its net assets as unrestricted, temporarily restricted, and permanently restricted based upon the following criteria:

- Unrestricted net assets represent expendable funds available for operations that are not otherwise limited by donor restrictions.

- Temporarily restricted net assets consist of contributed funds subject to specific donor-imposed restrictions, which are contingent upon a specific performance of a future event or a specific passage of time before the University may spend the funds.

- Permanently restricted net assets are subject to irrevocable donor restrictions, requiring that the assets be maintained in perpetuity, primarily for generating investment income to fund current operations.

Revenue Recognition

- *Tuition and Fees*: Student tuition and fees are recorded as revenue in the year during which the related academic services are rendered. Student tuition and fees received in advance of services to be rendered are recorded as deferred tuition revenue.

- *Gifts*: Contributions of cash, unconditional pledges, and other assets are recorded as revenue in the period received and are classified as permanently restricted, temporarily restricted, or unrestricted based on donor stipulations. Contributions whose restrictions are met in the same period they are received are recorded as revenue in temporarily restricted net assets and as net assets released from restrictions. Unconditional pledges with terms greater than one year are initially recorded at fair value based on their estimated future cash flows. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Gifts of assets other than cash are recorded at their estimated fair value.

Operating Activities: Operating revenue and expenses consist of those items attributable to the University's academic programs, research conducted by the academic departments, and auxiliary operations. The amount computed under the endowment spending policy of the investment pool and all investment income earned by investing cash in excess of daily requirements are used to support current operations. Contribution revenues with restrictions for long-lived assets are recorded under non-operating activities.

Note 1 – Nature of Operation and Significant Accounting Policies (Continued)

Cash and Cash Equivalents: The University considers liquid investments, which fund the daily operating activities of the University and have a maturity of three months or less at the date of purchase, to be cash equivalents. The University is required to keep separate bank accounts for certain funding received. Balances in these accounts totaled approximately $1,651,000 and $988,000 as of June 30, 2011 and 2010, respectively.

Concentration of Credit Risk: Financial instruments that potentially subject the University to concentrations of credit risk consist principally of cash deposits at financial institutions and investments in marketable securities. At times, balances in the University's cash and investment accounts exceed Federal Deposit Insurance Corporation ("FDIC") or Securities Investors Protection Corporation ("SIPC") limits.

Accounts and Loans Receivable: Receivables are recorded net of an allowance for doubtful accounts. The allowance is based on historical experience and management's evaluation of receivables at the end of each year.

Interest Rate Swap: In conjunction with the University's November 2005 issuance of variable rate demand revenue bonds, the University entered into an interest rate swap agreement with a financial institution counterparty. The purpose of this agreement is to swap the variable rate on underlying debt for a fixed rate of 3.45 percent for a period of 40 years. The University entered into the agreement to manage the risk associated with the cash flows attributable to interest payments on the debt and does not use this instrument for speculative purposes. The instrument's fair value and changes therein are reported in the University's unrestricted net assets. The value of the swap instrument represents the estimated receivable of or payable by the University to cancel the agreement at the reporting date, which is based on option pricing models that consider risks and market factors.

The unrealized gains (losses) for the change in the swap agreement's fair value were approximately $4,897,000 and ($6,355,000) for the years ended June 30, 2011 and 2010, respectively. The value of the swap instrument is a payable of approximately $13,166,000 and $18,063,000 recorded in other liabilities at June 30, 2011 and 2010, respectively.

Refundable Advances: The University serves as an agent for the federal government in administering the Perkins Student Loan Fund Program and the Nursing Faculty Loan Program. Amounts received in conjunction with these programs are recorded as refundable advances in the statements of financial position. Disbursements made to students in accordance with the federal program requirements are recorded as student loans receivable. Included in accounts and loans receivable at June 30, 2011 and 2010 are student loans receivable of approximately $13,014,000 and $12,621,000, respectively, related to these programs.

Functional Expense Classifications: Expenses, including certain allocated expenses, are reported in major categories: educational programs, research, athletics and recreation, public service, auxiliary enterprise expenses, and management and general expenses. Auxiliary enterprises include, among others, student residence and board, food services, and the bookstore.

Note 1 – Nature of Operation and Significant Accounting Policies (Continued)

Management and general expenses consist of general institutional support including expenses for fundraising. The University incurred fundraising expenses in the amount of approximately $7,177,000 during the year ended June 30, 2011, including $5,224,000 in personnel expenses and approximately $1,953,000 in other expenses. The University incurred fundraising expenses in the amount of approximately $6,952,000 during the year ended June 30, 2010, including $5,164,000 in personnel expenses and approximately $1,788,000 in other expenses. These expenses were incurred to support campaigns promoting charitable contributions including gifts directed toward the University's endowment and capital projects.

Earnings on Permanently Restricted Endowments: Assets of the University's individual endowment funds (the "Funds") are generally maintained in pooled investment portfolios. Interest, dividends, and gains and losses in the investment pool are allocated on a monthly-average basis to the Funds in proportion to each Fund's relative share in the investment pool, and are recorded in the Fund which is authorized to expend the earnings. The earnings on permanently restricted endowments are primarily recorded as temporarily restricted, in accordance with donor stipulations. In certain unique situations, a Fund's earnings may be recorded as permanently restricted or unrestricted, in accordance with donor stipulations. Accumulated unspent earnings are reinvested and retained in the Funds to protect them against inflation over the long-term.

Expiration of Donor-Imposed Restrictions: The expiration of a donor-imposed restriction on net assets is recognized in the period in which the restriction expires and at the time the related resources are reclassified to unrestricted net assets. Net assets are released from donor restrictions by incurring expenses satisfying the restricted purposes, by occurrences of events specified by the donors, or by the change of restrictions specified by the donors. Restrictions on gifts of cash or other assets received for the acquisition of long-lived assets are released when the long-lived assets are placed into service.

Fair Value of Financial Instruments: Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The University classifies certain of its assets and liabilities based upon established fair value hierarchy that 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 or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1: Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the University has the ability to access at the measurement date;

Level 2: Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly; and

Level 3: Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

Note 1 – Nature of Operation and Significant Accounting Policies (Continued)

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The categorization of assets and liabilities within the hierarchy is based upon the pricing transparency and does not necessarily correspond to the University's perceived risk of the assets and liabilities.

The University considers the carrying value of other financial instruments to approximate fair value because of the relatively short period of time between origination of the instruments and their expected realization.

Although the University uses its best judgment in determining the fair value of financial instruments, there are inherent limitations in any methodology. Future confirming events could affect the estimates of fair value and could be material to the financial statements. These events could also affect the amount realized upon liquidation of the instruments.

Use of Estimates: The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes: The University is exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code ("IRC") and section 23701(d) of the California Revenue and Taxation Code.

The University follows the provisions of ASC 740-10, *Income Taxes*, related to accounting for uncertain tax positions. The University has no unrecognized tax benefits or liabilities as of June 30, 2011 and 2010. The University files an exempt organization return and applicable unrelated business income tax return in the U.S. federal jurisdiction, and with the California Franchise Tax Board. The University is no longer subject to income tax examinations by taxing authorities for years before 2007 for its federal filings and for years before 2006 for its state filings.

Note 2 – Investments

Investments, other than real estate, are reported at their fair values. Real estate is reported at historical cost. The carrying value of real estate is periodically evaluated and may be reduced if the fair market value falls below the current carrying value, except for temporary fluctuations. No such adjustments were made in 2011 or 2010.

The University follows a spending rule for its endowment funds, which provides for regular increases in spending, while preserving the long-term purchasing power of the endowment. Earnings available for spending are shown in operating income, and the balance as non-operating income.

The University pools certain investments from the various net asset categories. Interest, dividends, and gains and losses in the investment pool are all distributed to the appropriate net asset category. Distributions are based upon the carrying value of the various net asset categories' assets when pooled, adjusted for purchases or gifts specifically identified to a given net asset category.

Note 2 – Investments (Continued)

Investments consist of the following at June 30 (in thousands):

	2011	2010
Cash and cash equivalents	$ 39,960	$ 33,321
Fixed-income	55,237	44,160
Equities	-	36
Real estate	10,490	11,521
Pooled investments	330,040	258,253
	$ 435,727	$ 347,291

Pooled investments consist of the following at June 30 (in thousands):

	2011	2010
Cash and cash equivalents	$ 16,957	$ 5,229
Fixed-income	51,895	46,108
Equities	128,876	87,724
Real assets	29,927	31,455
Marketable alternatives	59,250	59,169
Non-marketable alternatives	43,135	28,568
	$ 330,040	$ 258,253

Investment Return: The following schedule summarizes investment income and its classification on the statements of activities for the years ended June 30, 2011 and 2010 (in thousands):

	2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividends	$ 2,978	$ 2,058	$ 19	$ 5,055
Less: management fees	(652)	(1,033)	-	(1,685)
Net interest and dividends	2,326	1,025	19	3,370
Realized gain (loss), net	3,403	8,287	(10)	11,680
Unrealized gain (loss), net	13,579	22,668	(6)	36,241
	$ 19,308	$ 31,980	$ 3	$ 51,291

	2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividends	$ 2,798	$ 2,177	$ 139	$ 5,114
Less: management fees	(528)	(970)	-	(1,498)
Net interest and dividends	2,270	1,207	139	3,616
Realized (loss) gain, net	(260)	(398)	49	(609)
Unrealized gain (loss), net	13,386	19,114	(313)	32,187
	$ 15,396	$ 19,923	$ (125)	$ 35,194

Note 2 – Investments (Continued)

Included in the net unrealized gain (loss) for the years ended June 30, 2011 and 2010 are gross unrealized losses of approximately $4,773,000 and $23,648,000, respectively. The remaining amount is attributed to the conversion of unrealized gains to realized gains upon the sale of investments, net of gross unrealized gains.

The global credit markets, the financial services industry, and the United States economy as a whole have been experiencing a period of substantial turmoil and uncertainty. It is possible that these conditions may adversely affect the University's business, vendors, and prospects as well as its liquidity and financial condition.

Note 3 – Fair Value of Financial Instruments

The University uses the following methods and assumptions to estimate the fair value for its assets and liabilities measured and carried at fair value in the financial statements:

Fixed Income Securities: Investments in fixed income securities are comprised of U.S. Treasury notes, mortgage-backed securities, municipal and corporate bonds, as well as global investment grade debt securities denominated primarily in developed countries around the world. Fair value is based on quoted market prices, for those traded with sufficient frequency. If a quoted market price is not available, fair value is estimated based on the net asset value ("NAV") of the fund.

Equities Funds: Investments in equities funds include investments in securities traded in active markets for which closing prices are readily available. Investments in equities funds also include investments in index funds, which fair values may be based on market data of underlying assets and/or the NAV of the fund.

Real Estate: Real estate is initially reported at historical cost. The carrying value of real estate is periodically evaluated and may be adjusted if fair value is less than carrying value and impairment is not considered to be temporary.

Real Asset Funds: Investments in real asset funds includes funds, and funds of funds, which invest in various real assets. Fair value is based on quoted market prices, for those traded on active markets. Most of these investments are either funds not actively traded in a public market or investments in limited partnerships, in which fair value is determined by the NAV of the funds as determined in good faith by the fund manager or general partner.

Alternative Investments: Investments in alternatives includes fund of funds, private hedge, and equity funds for which no active market exists. The University has estimated the investments' fair value by using the NAV provided by the fund's managers.

The University generally records alternative investments at the investment manager's NAV, as the managers have the greatest insight into the investments of their fund and the related industry and have the appropriate expertise to determine the NAV. The University assesses the NAV and takes into consideration events such as suspended redemptions, imposition of gates, restructuring, secondary sales, and investor defaults to determine if an adjustment is necessary. Additionally, asset holdings are reviewed within the investment manager's audited financial statements, as are interim financial statements and fund manager communications, for purposes of assessing valuation.

Note 3 – Fair Value of Financial Instruments (Continued)

Beneficial Interest in Trust Held by Third Parties: The University's beneficial interest in trust assets is valued at fair value using the quoted market prices of the underlying securities and discounted when appropriate. If a quoted market price is not available, fair value is determined using the net present value of future distributions the University expects to receive over the term of the agreements.

Interest Rate Swap Agreement: The fair value of the interest rate swap agreement is the estimated amount the University would receive or pay to terminate the agreement at the reporting date, taking into consideration the current interest rates and creditworthiness of counterparties.

Note 3 – Fair Value of Financial Instruments (Continued)

The following tables disclose by level the fair value hierarchy for the assets and liabilities at June 30:

	(In Thousands)			
	Level 1	**Level 2**	**Level 3**	**2011**
Assets				
Investment in:				
Cash and cash equivalents	$ 56,917	$ -	$ -	$ 56,917
Fixed-income securities:				
Domestic debt securities	1,187	33,217	-	34,404
Government debt securities	15,299	5,276	-	20,575
Domestic and global securities	24,362	15,335	-	39,697
Domestic bank loans	-	12,196	-	12,196
Other fixed income	-	260	-	260
Equities funds:				
Domestic equity securities	34,619	22,730	-	57,349
International equity securities	5,670	35,812	-	41,482
Emerging market equity securities	-	23,483	-	23,483
Inflation sensitive equities	6,562	-	-	6,562
Real assets funds	473	29,454	-	29,927
Marketable alternatives:				
Absolute return hedge funds	-	17,199	19,860	37,059
Long/short hedge funds	-	4,882	17,309	22,191
Non-marketable alternatives:				
Venture capital	-	-	8,443	8,443
Domestic private equity	-	-	7,310	7,310
International private equity	-	-	9,823	9,823
Distressed debt	-	-	9,805	9,805
Energy & resources	-	-	5,169	5,169
Real estate	-	-	2,585	2,585
Fair value investment subtotal	145,089	199,844	80,304	425,237
Beneficial interest in trust held by third parties	-	-	5,255	5,255
Total fair value assets	$ 145,089	$ 199,844	$ 85,559	$ 430,492
Liabilities				
Interest rate swap agreement	$ -	$ 13,166	$ -	$ 13,166
Total fair value liabilities	$ -	$ 13,166	$ -	$ 13,166

Note 3 – Fair Value of Financial Instruments (Continued)

	(In Thousands)			
	Level 1	Level 2	Level 3	2010
Assets				
Investment in:				
Fixed-income securities	$ 37,784	$ 52,484	$ -	$ 90,268
Equities funds	25,423	62,337	-	87,760
Real assets funds	5,545	22,282	3,628	31,455
Marketable alternatives	-	19,826	39,343	59,169
Non-marketable alternatives	-	-	28,568	28,568
Fair value investment subtotal	68,752	156,929	71,539	297,220
Beneficial interest in trust held by third parties	-	-	4,616	4,616
Total fair value assets	$ 68,752	$ 156,929	$ 76,155	$ 301,836
Liabilities				
Interest rate swap agreement	$ -	$ 18,063	$ -	$ 18,063
Total fair value liabilities	$ -	$ 18,063	$ -	$ 18,063

Note 3 – Fair Value of Financial Instruments (Continued)

The following tables disclose the summary of changes in the fair value of the Level 3 assets:

	(In Thousands)					
	Balance as of July 1, 2010	Total Realized Gains/(Losses)	Total Unrealized Gains/(Losses)	Purchases and Sales, net	Actuarial Adjustment	Balance as of June 30, 2011
Marketable alternatives:						
Absolute return hedge funds	$ 19,984	$ 421	$ 1,312	$ (1,857)	$ -	$ 19,860
Long/short hedge funds	19,359	1,669	149	(3,868)	-	17,309
Non-marketable alternatives:						
Venture capital	5,376	481	1,523	1,063	-	8,443
Domestic private equity	6,751	1,646	255	(1,342)	-	7,310
International private equity	6,235	115	1,472	2,001	-	9,823
Distressed debt	10,206	198	897	(1,496)	-	9,805
Energy & resources	3,234	-	895	1,040	-	5,169
Real estate	394	55	960	1,176	-	2,585
Investments	71,539	4,585	7,463	(3,283)	-	80,304
Beneficial interest in trust held by third parties	4,616	-	-	-	639	5,255
Total Level 3	$ 76,155	$ 4,585	$ 7,463	$ (3,283)	$ 639	$ 85,559

	(In Thousands)				
	Balance as of July 1, 2009	Realized and Unrealized Gains/ (Losses), net	Purchases and Sales, net	Actuarial Adjustment	Balance as of June 30, 2010
Fixed-income securities	$ 11,815	$ 1,385	$ (13,200)	$ -	$ -
Real assets funds	2,486	27	1,115	-	3,628
Marketable alternatives	24,235	2,862	12,246	-	39,343
Non-marketable alternatives	21,389	3,056	4,123	-	28,568
Investments	59,925	7,330	4,284	-	71,539
Beneficial interest in trust held by third parties	4,430	-	-	186	4,616
Total Level 3	$ 64,355	$ 7,330	$ 4,284	$ 186	$ 76,155

The University recognizes all significant transfers between Levels 1, 2, and 3 at fair market value at the end of the reporting period. For the fiscal year ended June 30, 2011, the University recorded no significant transfers between Levels 1, 2, or 3.

Net depreciation on investments and the actuarial adjustment for the beneficial interest in trusts in the above tables are reflected in the line "Investment income (loss)" and "Contributions," respectively, on the statements of activities. Unrealized losses shown for Level 3 assets held at June 30, 2011 and 2010 totaled $2,342,000 and $881,000, respectively.

The University has diversified its alternative investments. The fair values of these investments are generally determined by using the NAV per share of the investments.

Note 3 – Fair Value of Financial Instruments (Continued)

The following summarizes these investments by major categories as of June 30, 2011:

	Fair Value	Unfunded Commitment	Redemption	Redemption Notice	Note
Fixed-income securities:					
Domestic debt securities	$ 33,217	N/A	1 – 30 days, with exception to those under gate limitations	1 – 30 days, with exception to those under gate limitations	(a)
Government debt securities	$ 5,276	N/A	1 – 30 days, with exception to those under gate limitations	1 – 30 days, with exception to those under gate limitations	(a)
Domestic and global securities	$ 15,335	N/A	1 – 30 days, with exception to those under gate limitations	1 – 30 days, with exception to those under gate limitations	(a)
Domestic bank loans	$ 12,196	N/A	1 – 30 days, with exception to those under gate limitations	1 – 30 days, with exception to those under gate limitations	(a)
Other fixed income	$ 260	N/A	1 – 30 days, with exception to those under gate limitations	1 – 30 days, with exception to those under gate limitations	(a)
Equities funds:					
Domestic equity securities	$ 22,730	N/A	1 – 30 days, with exception to those under gate limitations	1 – 30 days, with exception to those under gate limitations	(a)
International equity securities	$ 35,812	N/A	1 – 30 days, with exception to those under gate limitations	1 – 30 days, with exception to those under gate limitations	(a)
Emerging market equity securities	$ 23,483	N/A	1 – 30 days, with exception to those under gate limitations	1 – 30 days, with exception to those under gate limitations	(a)
Real assets funds	$ 29,454	N/A	1 month - maturity	30 days - maturity	(b)
Marketable alternatives:					
Absolute return hedge funds	$ 37,059	N/A	3 – 36 months	30 - 90 days	(c)
Long/short hedge funds	$ 22,191	N/A	3 – 36 months	30 - 90 days	(d)
Non-marketable alternatives:					
Venture capital	$ 8,443	$ 3,167	N/A – Redeemable upon maturity	N/A	(e)
Domestic private equity	$ 7,310	$ 5,529	N/A – Redeemable upon maturity	N/A	(f)
International private equity	$ 9,823	$ 5,208	N/A – Redeemable upon maturity	N/A	(f)
Distressed debt	$ 9,805	$ 2,726	N/A – Redeemable upon maturity	N/A	(g)
Energy & resources	$ 5,169	$ 5,072	N/A – Redeemable upon maturity	N/A	(h)
Real estate	$ 2,585	$ 2,494	N/A – Redeemable upon maturity	N/A	(i)

Note 3 – Fair Value of Financial Instruments (Continued)

(a) This category includes funds that consist of assets from several accounts which are blended together. These funds invest in U.S. debt and equities, international equities, as well as emerging markets. Less than 1 percent of the investments are not redeemable until liquidation by the fund manager. The remaining values are generally redeemable within one year, subject to certain gate limitations.

(b) This category includes funds, and a fund of funds, which invest in natural resources, commodities, private energy, and private real estate in the U.S. and outside the U.S.

(c) This category includes investments in various types of hedge funds using a total of 11 different fund managers. These funds are invested in absolute return strategies, including diversified arbitrage, event-driven arbitrage and distressed funds. Less than 1 percent of the investments are not redeemable until liquidation by the fund manager. The remaining values are generally redeemable within one year, subject to certain gate limitations.

(d) This category includes investments in various types of hedge funds using a total of 7 different fund managers. These funds are invested in long and short strategies in both U.S. and global common stocks. Less than 1 percent of the investments are not redeemable until liquidation by the fund manager. The remaining values are generally redeemable within one year, subject to certain gate limitations.

(e) This category includes investments in venture capital funds and funds of venture capital funds. Underlying investments are primarily private investments in early stage companies.

(f) This category includes investments in private equity funds and private equity funds of funds in the U.S. and outside of the U.S. whose mandates include leveraged buyouts and growth equity investments in companies.

(g) This category includes investments in distressed debt funds and funds of funds. Underlying investments are primarily securities of companies or government entities that are already in default, under bankruptcy protection, or in distress and heading towards such a condition.

(h) This category includes funds, and a fund of funds, which invest in natural resources, commodities, and private energy in the U.S. and outside the U.S.

(i) This category includes funds, and a fund of funds, which invest in private real estate in the U.S. and outside the U.S.

Note 4 – Accounts and Loans Receivable

The following is a summary of receivables at June 30 (in thousands):

	2011	2010
Student loans receivable	$ 34,193	$ 32,775
Student accounts receivable for tuition and fees	8,139	8,418
Other receivables	4,433	4,895
	46,765	46,088
Less allowance for doubtful accounts	(6,140)	(5,228)
	$ 40,625	$ 40,860

Note 5 – Contributions Receivable

Contributions receivable are expected to be received in the following periods at June 30 (in thousands):

	2011	2010
Unconditional pledges:		
Less than one year	$ 2,113	$ 2,058
One to five years	7,941	10,488
Over five years	19,501	13,032
	29,555	25,578
Less present value discount (2.8 percent)	(7,260)	(12,228)
Less allowance for uncollectibility	(7,246)	(4,433)
Net pledges receivable	15,049	8,917
Split-interest agreements - over five years	6,869	6,230
	$ 21,918	$ 15,147

Split-interest agreements are comprised of unitrusts and charitable gift annuities. To determine the carrying value of unitrust assets, the University determines net present value using a discount percentage of generally 2.8 percent based on estimated payouts and donor data. For charitable gift annuities, the assets are recorded at fair value and a liability is then recorded for the amount of the annuity payments based on the life of the donor. The difference between the recorded asset and liability is recorded into revenue for the given year. At June 30, 2011, the largest outstanding donor pledge balance represented 24 percent of the University's gross pledges receivable. At June 30, 2010, the largest outstanding donor pledge balance represented 30 percent of the University's gross pledges receivable.

Note 6 – Property, Plant, and Equipment

Property, plant, and equipment consist of the following at June 30 (in thousands):

	2011	2010
Land and improvements	$ 47,211	$ 47,211
Buildings and improvements	454,913	440,691
Furniture, equipment, and library books	67,346	76,115
Construction in progress	4,804	15,256
	574,274	579,273
Less accumulated depreciation	(116,610)	(113,621)
	457,664	465,652
Art collection	4,072	4,071
	$ 461,736	$ 469,723

Property, plant, and equipment are stated at cost if purchased, or fair value at the date of donation, and are depreciated on a straight-line basis over their appropriate estimated useful lives. The estimated useful lives by asset type are fifty years for buildings; forty years for building improvements and library resources; seven years for furniture, equipment, and technology upgrades; and three years for capital lease assets.

Note 6 – Property, Plant, and Equipment (Continued)

The art collection consists of various pieces of donated and purchased artwork, antique furniture, and artifacts whose value is expected to increase over time and, therefore, is not depreciated. Depreciation expense totaled approximately $15,098,000 and $14,868,000 for the years ended June 30, 2011 and 2010, respectively.

Interest is capitalized in connection with the construction of certain facilities. The capitalized interest is recorded as part of the asset to which it relates and is amortized over the asset's estimated useful life. Interest expense, net of income, capitalized for the years ended June 30, 2011 and 2010 totaled approximately $0 and $2,710,000, respectively.

Note 7 – Employee Benefits

The University has a retirement health care program that pays a specified fixed amount to supplement the medical insurance payments made by retirees of the University. The University has internally designated specific investments toward covering this obligation.

The following table sets forth the amount of obligation and assets as of June 30 (in thousands):

	2011	2010
Fair value of designated assets	$ 2,839	$ 2,327
Post-retirement benefit obligation	2,354	2,327
Over (under) funded	$ 485	$ -

The following table sets forth benefit costs and benefits paid (in thousands):

Benefit costs	$ 15	$ 61
Benefit payments	107	99
Contributions	27	114

Weighted-average assumptions:

Discount rate	6.0%	6.0%
Expected return on plan assets	8.0%	8.0%

The University uses an actuarial measurement date of June 30 to determine benefit measurements as of the same date of the current year. The discount rate is the estimated rate at which the obligation for benefits could effectively be settled. The expected return on plan assets reflects the average rate of earnings that the University estimates will be generated on the assets of the plans.

Note 7 – Employee Benefits (Continued)

The University has a defined contribution retirement plan (the “Plan”) which covers all benefit-eligible employees. For the participating employees, the University contributes 12 percent of the employees’ eligible compensation to the Plan. Both the employee and University contributions are employee-directed into various funding vehicles as provided by the plan sponsor. The University’s related expense was approximately $12,477,000 and $12,315,000 for the years ended June 30, 2011 and 2010, respectively.

Note 8 – Line of Credit

The University has a variable rate line of credit at a bank with a maximum borrowing limit of $10,000,000; of which $2,350,000 of the line has been earmarked for letters of credit related to insurance policies. The renewable line of credit is effective through February 1, 2012 and may be used for working capital purposes. There were no borrowings under this line at June 30, 2011 and 2010.

In 2010, the University obtained a line of credit for funding of a major campus sustainability project. The University converted the balance into a ten-year term loan effective September 30, 2010. The outstanding balance as of June 30, 2011 and 2010 was $7,791,000 and $5,455,000, respectively, and is included in other liabilities on the statements of financial position.

Note 9 – Lease Commitments

The University leases various types of equipment under leases that qualify as capital leases. The gross amount of equipment recorded as capital leases was approximately $3,914,000 and $4,717,000 at June 30, 2011 and 2010, respectively. Accumulated amortization for equipment recorded under capital leases was approximately $2,158,000 and $2,433,000 at June 30, 2011 and 2010, respectively. The amortization expense for these capital leases is included within the University’s depreciation expense.

The following table sets forth the University’s future minimum lease payments as of June 30, 2011 on capital lease obligations for each of the next three years (in thousands):

Years ending June 30,	
2012	$ 813
2013	476
2014	224
	$ 1,513

Note 10 – Bonds Payable

Bonds payable consist of the following at June 30 (in thousands):

	2011	2010
2011 California Educational Facilities Authority revenue bonds (the "2011 bonds"), with interest rates varying between 3 and 5 percent, payable on April 1 and October 1 each year, maturing:		
Serial bonds, due October 2022	$ 18,640	$ -
	18,640	-
Unamortized original issue premium	899	-
	19,539	-
2005 California Statewide Communities Development Authority demand revenue bonds (the "2005 bonds"), with interest rates based on market conditions, varying between 0.07 and 0.35 percent during the year ended June 30, 2011, payable on April 1 and October 1 each year, maturing October 2045	93,415	93,415
	93,415	93,415
Unamortized original issue discount	(179)	(184)
	93,236	93,231
2002 California Educational Facilities Authority revenue bonds (the "2002 bonds"), with interest rates varying between 5.25 and 5.5 percent, payable on April 1 and October 1 each year, maturing:		
Term bonds, due October 2030	6,675	6,675
Term bonds, due October 2032	7,435	7,435
	14,110	14,110
Unamortized original issue discount	(61)	(64)
	14,049	14,046
2001 County of San Diego certificates of participation (the "2001 COPs"), with interest rates varying between 4.75 and 5.375 percent, payable on April 1 and October 1 each year, maturing:		
Serial certificates, annually October 2003 through October 2016	3,635	5,255
Term certificates, due October 2021	2,485	2,485
Term certificates, due October 2028	4,745	4,745
Term certificates, due October 2041	14,995	14,995
	25,860	27,480
Unamortized original issue discount	(586)	(580)
	25,274	26,900

Note 10 – Bonds Payable (Continued)

1999 California Educational Facilities Authority revenue bonds (the "1999 bonds"), comprised of current interest bonds bearing effective interest of 5 percent, payable on April 1 and October 1 each year, and capital appreciation bonds with interest rates varying between 4.45 and 5.16 percent, with interest payable at the time they mature:		
Term bonds, due October 2028, refunded October 2011 (Note 14)	19,200	19,200
Capital appreciation bonds, due October 2009 through October 2024	10,785	11,656
	29,985	30,856
Unamortized original issue discount	(130)	(137)
	29,855	30,719
1998 California Educational Facilities Authority revenue bonds (the "1998 bonds"), with interest rates varying between 4 and 5 percent, payable on April 1 and October 1 each year, maturing:		
Serial bonds, annually through October 2009	-	-
Term bonds, due October 2015	-	8,715
Term bonds, due October 2022	-	11,620
	-	20,335
Unamortized original issue discount	-	(201)
	-	20,134
	$ 181,953	$ 185,030

In March 2011, the University issued $18,640,000 in tax-exempt bonds through the California Educational Facilities Authority for the sole purpose of refunding the 1998 bonds to achieve future debt service savings. The University recorded a $556,000 loss on the refunding of the 1998 bonds during the year ended June 30, 2011. Costs of issuance were $237,000.

The 2001 COPs and the 2011, 2005, 2002, and 1999 bonds are secured by the University's full faith and credit. The bond agreements place certain other restrictions on the University with which the University has complied. Bond discounts and issuance costs are amortized using the straight-line method over the life of the bonds, which approximates the interest method.

In conjunction with the November 2005 issuance of variable rate demand revenue bonds, the University established a $94,643,000 letter of credit with Wells Fargo to enable the University to purchase tendered variable rate bonds in the event of a failed remarking. The facility is committed for this purpose as well as to pay principal and interest on the Series 2005 bonds in the event the University defaults on its payment obligations and cannot be used for operating needs of the University. As of June 30, 2011 and 2010, there were no draws against this letter of credit.

The estimated fair value of the University's bonds payable was approximately $191,449,000 and $195,874,000 at June 30, 2011 and 2010, respectively. The fair value was derived using estimated market prices on publicly traded debt.

Note 10 – Bonds Payable (Continued)

The following table sets forth the University's principal payment requirements as of June 30, 2011 on bonds payable for each of the next five years and thereafter (in thousands):

Years ending June 30,	2011 Bonds	2005 Bonds	2002 Bonds	2001 COPs	1999 Bonds	Total
2012	$ 1,725	$ -	$ -	$ 1,705	$ 819	$ 4,249
2013	1,420	535	-	350	771	3,076
2014	1,475	555	-	365	721	3,116
2015	1,525	575	-	385	686	3,171
2016	1,580	595	-	405	650	3,230
Thereafter	10,915	91,155	14,110	22,650	26,338	165,168
	$ 18,640	$ 93,415	$ 14,110	$ 25,860	$ 29,985	$ 182,010

Note 11 – Net Assets

Temporarily restricted net assets are available for the following purposes at June 30 (in thousands):

	2011	2010
Educational programs	$ 49,079	$ 30,764
Scholarships	16,591	10,110
Athletics and recreation	922	793
Public service	7,760	6,880
Research	1	104
Total program support	74,353	48,651
Management and general support	29,780	25,481
	$ 104,133	$ 74,132

Net assets released from restrictions are as follows:

	2011	2010
Purpose restricted	$ 9,464	$ 11,175

Permanently restricted net assets are restricted to the following purposes at June 30 (in thousands):

	2011	2010
Revolving student loan funds from private sources	$ 22,024	$ 21,885
Investment in perpetuity, the income from which is expendable to support the following programs:		
Educational programs	95,751	92,919
Scholarships	26,669	26,085
Athletics and recreation	229	229
Public service	3,000	3,000
Total program support	125,649	122,233
Management and general support	6,503	4,276
	132,152	126,509
	$ 154,176	$ 148,394

Note 12 – Endowment

The state of California has adopted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), the provisions of which apply to endowment funds existing or established after the date of adoption. The corpus of the fund subject to UPMIFA is classified as permanently restricted. The corpus represents the fair value of the original gifts as of the gift date and all subsequent gifts where the donor has indicated that the gift must be retained permanently. The value of assets in excess of original gifts in donor-restricted endowment funds is classified as temporarily restricted net assets until appropriated for expenditure by the University.

Spending Policy: Spending is based on a total return strategy, which includes both appreciation and income. The University's spending allowance rate is 4 percent of the trailing three-year average of the endowment's fair market value. The fair market value is the sum of the endowment principle and the accumulated realized and unrealized earnings. In accordance with UPMIFA, the Board of Trustees (the "Board") may expend so much of an endowment fund as the Board determines to be prudent for the uses and purposes for which the endowment fund is established, consistent with the goal of conserving the long-term purchasing power of the endowment fund.

Investment Policy: The overall investment goal for the pooled endowment fund (the "Fund") is three-fold: (1) to provide a relatively predictable, stable, and constant return sufficient to meet the spending needs of the University; (2) to preserve and enhance the real (inflation adjusted) purchasing power of the Fund through active management; and (3) to increase the Fund through unspent income and gains, appreciated value, gifts, and other appropriate funds.

The return objective for the Fund, measured over a full market cycle, shall be inflation plus 5.5 percent, after the payment of all investment-related fees. In addition, the Fund should experience no greater risk (volatility and variability of return) than that of the market; the market being defined as the Fund's relevant policy benchmarks. It is recognized that the achievement of a long-term, real return in excess of 5.5 percent per year will require a significant allocation to higher returning asset classes. To help moderate the volatility of the portfolio, the Fund will seek to achieve meaningful diversification across asset classes. In addition, the Fund will include significant allocations to asset classes that provide a meaningful hedge against deflation and inflation.

Note 12 – Endowment (Continued)

Endowment Net Assets: The following represents a description of the endowment net asset composition by type of fund as of June 30, 2011 and 2010 (in thousands):

	2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment fund	$ (21)	$ 71,152	$ 133,903	$ 205,034
Board designated/quasi-endowment funds	121,787	-	-	121,787
Total endowment	$ 121,766	$ 71,152	$ 133,903	$ 326,821

	2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment fund	$ (1,087)	$ 46,358	$ 128,002	$ 173,273
Board designated/quasi-endowment funds	86,721	-	-	86,721
Total endowment	$ 85,634	$ 46,358	$ 128,002	$ 259,994

As a result of market declines, the fair value of certain donor-restricted endowments was less than the historical cost value of such funds by approximately $21,000 and $1,087,000 at June 30, 2011 and 2010, respectively. These losses have been recorded as reductions in unrestricted net assets. Future gains will be used to restore this deficiency in unrestricted net assets before any net appreciation above the historical cost value of such funds increases temporarily restricted net assets.

Note 12 – Endowment (Continued)

The following represents the changes in endowment net assets for the years ended June 30, 2011 and 2010 (in thousands):

	2011			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Net endowment assets, beginning of year	$ 85,634	$ 46,358	$ 128,002	$ 259,994
Investment return:				
Investment income, net	598	887	-	1,485
Net appreciation	16,493	30,988	-	47,481
Total investment return	17,091	31,875	-	48,966
Contribution and other revenue	3,758	-	5,593	9,351
Appropriation and other expenditures	(334)	(5,344)	-	(5,678)
Other changes, including transfers	15,617	(1,737)	308	14,188
Net endowment assets, end of year	$ 121,766	$ 71,152	$ 133,903	$ 326,821

	2010			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Net endowment assets, beginning of year	$ 61,737	$ 32,883	$ 126,219	$ 220,839
Investment return:				
Investment income, net	572	1,120	-	1,692
Net appreciation	7,995	18,412	-	26,407
Total investment return	8,567	19,532	-	28,099
Contribution and other revenue	(2)	-	1,566	1,564
Appropriation and other expenditures	(169)	(5,215)	-	(5,384)
Other changes, including transfers	15,501	(842)	217	14,876
Net endowment assets, end of year	$ 85,634	$ 46,358	$ 128,002	$ 259,994

Note 13 – Commitments and Contingencies

Loan Programs: The University participates in certain alternative loan programs. No assets or liabilities are recorded by the University for amounts loaned to students under these programs. The University is contingently liable for a portion of the outstanding loans, and the amount of the contingency was $1,972,000 and $2,024,000 at June 30, 2011 and 2010, respectively.

Grants and Contracts: Federal grant programs are subject to review by the grantor agencies, which could result in requests for reimbursement to grantor agencies for disallowed expenditures. Management believes it has adhered to the terms of its grants, and any disallowed expenditures resulting from such reviews would not have a material effect on the financial position of the University.

Legal: The University is party to certain legal actions arising in the ordinary course of business. In the opinion of management, liabilities, if any, under these actions will not have a material impact on its financial position.

Note 14 – Subsequent Events

Subsequent events are events or transactions that occur after the statement of financial position date, but before the financial statements are available to be issued. The University recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position, including the estimates inherent in the process of preparing the financial statements. The University's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position, but arose after the statement of financial position date and before the financial statements are available to be issued.

The University has evaluated subsequent events through October 24, 2011, which is the date the financial statements were issued.

In October 2011, the University issued $41,130,000 in fixed rate, tax-exempt bonds through the California Municipal Finance Authority for the sole purpose of refunding the 1999 term bonds and 2001 COP's. This refunding will assist the University in achieving future debt service savings. The 1999 capital appreciation bonds were not callable, and thus they were excluded from the refunding. The estimated loss on refunding of the bonds is $1,084,000, and cost of issuance totaled approximately $330,000.