



**Report of Independent Auditors and
Financial Statements for
University of San Diego
June 30, 2012 and 2011**

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, 2012 and 2011, 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, as well as 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 as of June 30, 2012 and 2011, 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 22, 2012

UNIVERSITY OF SAN DIEGO

STATEMENTS OF FINANCIAL POSITION JUNE 30, 2012 AND 2011 (IN THOUSANDS)

	2012	2011
Assets		
Cash and cash equivalents	\$ 2,512	\$ 2,560
Short-term investments	93,799	105,474
Accounts and loans receivable, net	42,582	40,625
Other assets	9,615	9,926
Contributions receivable, net	34,435	21,918
Property, plant, and equipment, net	463,861	461,736
Long-term investments	<u>362,736</u>	<u>330,253</u>
Total assets	<u>\$ 1,009,540</u>	<u>\$ 972,492</u>
Liabilities		
Accounts payable and accrued expenses	\$ 40,947	\$ 38,214
Deferred tuition revenue	17,693	19,690
Other liabilities	42,510	22,730
Bonds payable	178,447	181,953
Refundable advances	<u>11,962</u>	<u>11,039</u>
Total liabilities	<u>291,559</u>	<u>273,626</u>
Net Assets		
Unrestricted	449,078	440,557
Temporarily restricted	105,564	104,133
Permanently restricted	<u>163,339</u>	<u>154,176</u>
Total net assets	<u>717,981</u>	<u>698,866</u>
Total liabilities and net assets	<u>\$ 1,009,540</u>	<u>\$ 972,492</u>

UNIVERSITY OF SAN DIEGO

STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2012 (IN THOUSANDS)

	2012			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
OPERATING				
Revenues and other additions:				
Tuition and fees	\$ 303,864	\$ -	\$ -	\$ 303,864
Less: tuition discounts and financial aid	(89,110)	-	-	(89,110)
Net tuition and fees	214,754	-	-	214,754
Sales and services of auxiliary enterprises	46,852	-	-	46,852
Grants and contracts	13,185	-	-	13,185
Contributions	5,584	13,297	9,004	27,885
Investment return distributed	465	6,062	-	6,527
Investment income	950	-	-	950
Other revenue	3,582	-	175	3,757
Total revenues	285,372	19,359	9,179	313,910
Net assets released from restrictions for operations	10,543	(10,543)	-	-
Total revenues and other additions	295,915	8,816	9,179	313,910
Expenses:				
Educational programs	143,257	-	-	143,257
Research	3,869	-	-	3,869
Athletics and recreation	13,651	-	-	13,651
Public service	3,642	-	-	3,642
Auxiliary enterprise expenses	41,978	-	-	41,978
Management and general expenses	58,279	-	-	58,279
Total expenses	264,676	-	-	264,676
Increase in net assets from operations	31,239	8,816	9,179	49,234
NON-OPERATING				
Investment return:				
Investment (loss)	(1,027)	(3,572)	(16)	(4,615)
Less: investment return distributed	(465)	(6,062)	-	(6,527)
Total non-operating investment return	(1,492)	(9,634)	(16)	(11,142)
Contributions from non-operating activities	-	2,639	-	2,639
Unrealized loss on interest rate swap	(20,400)	-	-	(20,400)
Other non-operating changes	(826)	(390)	-	(1,216)
(Decrease) increase in net assets from non-operating activities	(22,718)	(7,385)	(16)	(30,119)
INCREASE IN NET ASSETS	8,521	1,431	9,163	19,115
NET ASSETS				
Beginning of year	440,557	104,133	154,176	698,866
End of year	\$ 449,078	\$ 105,564	\$ 163,339	\$ 717,981

UNIVERSITY OF SAN DIEGO

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

	2011			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
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	4,355	5,638	18,167
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	9,801	5,779	291,993
Net assets released from restrictions for operations	9,464	(9,464)	-	-
Total revenues and other additions	285,877	337	5,779	291,993
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 in net assets from operations	32,130	337	5,779	38,246
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	-	5,926	-	5,926
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	29,664	3	55,051
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

STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2012 AND 2011 (IN THOUSANDS)

	2012	2011
OPERATING ACTIVITIES		
Changes in net assets	\$ 19,115	\$ 93,297
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and net amortization	14,628	15,323
Net provision for losses on receivables	(74)	912
Net realized and unrealized losses (gains) on long-term investments	2,836	(52,658)
Net unrealized losses (gains) on interest rate swap	20,400	(4,897)
(Gain) loss on debt refunding	1,216	556
(Gain) loss on disposal of assets	10	-
Contributions restricted for long-term investments	(4,489)	(3,358)
Contributions and investment income restricted for revolving student loan fund	(17)	(17)
Contributions restricted for investment in property, plant, and equipment	(2,920)	(2,488)
Changes in operating assets and liabilities:		
Receivables	(3,773)	(2,095)
Other assets	19	(1,390)
Contributions receivable	(12,517)	(6,771)
Accounts payable and accrued expenses	2,733	(3,755)
Deferred tuition revenue	(1,997)	3,532
Other liabilities	(620)	1,001
Net cash provided by operating activities	<u>34,550</u>	<u>37,192</u>
INVESTING ACTIVITIES		
Proceeds from maturities/sales of investments	329,208	290,313
Purchases of investments	(352,852)	(326,091)
Purchase of property, plant, and equipment	(16,831)	(7,110)
Net cash (used in) investing activities	<u>(40,475)</u>	<u>(42,888)</u>
FINANCING ACTIVITIES		
Principal payments on bonds payable	(4,362)	(3,770)
Advances for government loan funds	923	480
Net disbursements of student loans	1,890	1,418
Proceeds from note payable	-	2,335
Contributions restricted for long-term investments	4,489	3,358
Contributions and investment income restricted for revolving student loan fund	17	17
Contributions restricted for investment in property, plant, and equipment	2,920	2,488
Net cash provided by financing activities	<u>5,877</u>	<u>6,326</u>
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(48)	630
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>2,560</u>	<u>1,930</u>
End of year	<u>\$ 2,512</u>	<u>\$ 2,560</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	<u>\$ 9,202</u>	<u>\$ 9,612</u>
SUPPLEMENTAL DISCLOSURE OF NON-CASH FINANCING ACTIVITY		
Proceeds from bond issuance	<u>\$ 41,130</u>	<u>\$ 18,640</u>
Payments on bond refunding	<u>\$ (43,355)</u>	<u>\$ (19,055)</u>
Bond premium payments	<u>\$ 2,445</u>	<u>\$ 922</u>

See accompanying notes.

UNIVERSITY OF SAN DIEGO

NOTES TO FINANCIAL STATEMENTS

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.
- *Grants:* Revenues from grant contracts are reported as increases in unrestricted net assets as allowable expenditures under such agreements are incurred.
- *Sales and Services of Auxiliary Enterprises:* Revenues from supporting services, such as student housing, dining facilities and the bookstore, are recorded at the time of delivery of a product or service. Amounts received in advance of services to be rendered are recorded as deferred revenue.

UNIVERSITY OF SAN DIEGO

NOTES TO FINANCIAL STATEMENTS

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

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.

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 \$1,443,000 and \$1,651,000 as of June 30, 2012 and 2011, 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.

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.

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 3.513 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 (losses) gains for the change in the swap agreement's fair value were approximately \$(20,400,000) and \$4,897,000 for the years ended June 30, 2012 and 2011, respectively. The value of the swap instrument is a payable of approximately \$33,566,000 and \$13,166,000 recorded in other liabilities at June 30, 2012 and 2011, 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, 2012 and 2011 are student loans receivable of approximately \$13,502,000 and \$13,014,000, respectively, related to these programs.

UNIVERSITY OF SAN DIEGO

NOTES TO FINANCIAL STATEMENTS

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

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.

Management and general expenses consist of general institutional support including expenses for fundraising. The University incurred fundraising expenses in the amount of approximately \$7,696,000 during the year ended June 30, 2012, including \$5,622,000 in personnel expenses and approximately \$2,074,000 in other expenses. 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. 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.

UNIVERSITY OF SAN DIEGO

NOTES TO FINANCIAL STATEMENTS

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.

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 generally accepted accounting principles in the United States of America ("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 Accounting Standards Codification ("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, 2012 and 2011. 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 2008 for its federal filings and for years before 2007 for its state filings.

Reclassifications: Certain reclassifications were made to the 2011 financial statements to conform to the 2012 presentation. The reclassifications have no effect on the change in net assets or net asset balances as previously reported.

Note 2 – Investments

Investments are reported at their fair values. 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.

UNIVERSITY OF SAN DIEGO

NOTES TO FINANCIAL STATEMENTS

Note 2 – Investments (Continued)

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

	2012	2011
Cash and cash equivalents	\$ 28,496	\$ 39,960
Fixed income	64,715	55,237
Real estate	10,840	10,490
Pooled investments	<u>352,484</u>	<u>330,040</u>
	<u>\$ 456,535</u>	<u>\$ 435,727</u>

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

Cash and cash equivalents	\$ 7,161	\$ 16,957
Fixed income	61,567	51,895
Equities	140,641	128,876
Real assets	23,302	29,927
Marketable alternatives	69,303	59,250
Non-marketable alternatives	<u>50,510</u>	<u>43,135</u>
	<u>\$ 352,484</u>	<u>\$ 330,040</u>

Investment Return: The following schedule summarizes investment income and its classification on the statements of activities for the years ended June 30, 2012 and 2011 (in thousands):

	<u>2012</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Interest and dividends	\$ 3,250	\$ 2,031	\$ 2	\$ 5,283
Less: management fees	<u>(594)</u>	<u>(854)</u>	<u>-</u>	<u>(1,448)</u>
Net interest and dividends	2,656	1,177	2	3,835
Realized gain (loss), net	3,746	5,490	(22)	9,214
Unrealized (loss) gain, net	<u>(6,479)</u>	<u>(10,239)</u>	<u>4</u>	<u>(16,714)</u>
	<u>\$ (77)</u>	<u>\$ (3,572)</u>	<u>\$ (16)</u>	<u>\$ (3,665)</u>
	<u>2011</u>			
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Interest and dividends	\$ 2,978	\$ 2,058	\$ 19	\$ 5,055
Less: management fees	<u>(652)</u>	<u>(1,033)</u>	<u>-</u>	<u>(1,685)</u>
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	<u>13,579</u>	<u>22,668</u>	<u>(6)</u>	<u>36,241</u>
	<u>\$ 19,308</u>	<u>\$ 31,980</u>	<u>\$ 3</u>	<u>\$ 51,291</u>

Included in the net unrealized gain (loss) for the years ended June 30, 2012 and 2011 are gross unrealized losses of approximately \$16,841,000 and \$4,773,000, 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.

UNIVERSITY OF SAN DIEGO

NOTES TO FINANCIAL STATEMENTS

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: Investment in real estate includes various residential and commercial properties. The University has estimated the real estate’s fair value by using market comparables and third-party appraisals. In prior years, real estate was reported at historical cost, which approximated fair value.

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 funds 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 funds’ 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.

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.

UNIVERSITY OF SAN DIEGO

NOTES TO FINANCIAL STATEMENTS

Note 3 – Fair Value of Financial Instruments (Continued)

The following table discloses by level the fair value hierarchy for the assets and liabilities at June 30, 2012:

	(In Thousands)			2012 Total
	Level 1	Level 2	Level 3	
Assets				
Investment in:				
Cash and cash equivalents	\$ 35,657	\$ -	\$ -	\$ 35,657
Fixed-income securities:				
Domestic debt securities	1,180	42,781	-	43,961
Government debt securities	15,427	5,275	-	20,702
Domestic and global securities	25,050	15,920	12,217	53,187
Domestic bank loans	-	8,380	-	8,380
Other fixed income	-	52	-	52
Equities funds:				
Domestic equity securities	27,806	35,343	-	63,149
International equity securities	4,657	34,816	-	39,473
Emerging market equity securities	242	25,159	-	25,401
Inflation sensitive equities	12,618	-	-	12,618
Real estate	-	10,840	-	10,840
Real assets funds	378	22,924	-	23,302
Marketable alternatives:				
Absolute return hedge funds	-	13,719	25,010	38,729
Long/short hedge funds	-	7,591	22,983	30,574
Non-marketable alternatives:				
Venture capital	-	-	9,790	9,790
Domestic private equity	-	-	7,271	7,271
International private equity	-	-	10,929	10,929
Distressed debt	-	-	9,172	9,172
Energy and resources	-	-	6,700	6,700
Real estate	-	-	6,648	6,648
	<u>123,015</u>	<u>222,800</u>	<u>110,720</u>	<u>456,535</u>
Beneficial interest in trust				
held by third parties	-	-	5,236	5,236
Total fair value assets	<u>\$ 123,015</u>	<u>\$ 222,800</u>	<u>\$ 115,956</u>	<u>\$ 461,771</u>
Liabilities				
Interest rate swap agreement	<u>\$ -</u>	<u>\$ 33,566</u>	<u>\$ -</u>	<u>\$ 33,566</u>

UNIVERSITY OF SAN DIEGO

NOTES TO FINANCIAL STATEMENTS

Note 3 – Fair Value of Financial Instruments (Continued)

The following table discloses by level the fair value hierarchy for the assets and liabilities at June 30, 2011:

	(In Thousands)			
	Level 1	Level 2	Level 3	2011 Total
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 and 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	<u>\$ 145,089</u>	<u>\$ 199,844</u>	<u>\$ 85,559</u>	<u>\$ 430,492</u>
Liabilities				
Interest rate swap agreement	<u>\$ -</u>	<u>\$ 13,166</u>	<u>\$ -</u>	<u>\$ 13,166</u>

UNIVERSITY OF SAN DIEGO

NOTES TO FINANCIAL STATEMENTS

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, 2011	Total Realized Gains/(Losses)	Total Unrealized Gains/(Losses)	Purchases	Sales	Transfers	Actuarial Adjustment	Balance as of June 30, 2012
Fixed-income securities:								
Domestic and global securities	\$ -	\$ -	\$ 217	\$ 12,000	\$ -	\$ -	\$ -	\$ 12,217
Marketable alternatives:								
Absolute return hedge funds	19,860	641	(417)	2,000	(641)	3,567	-	25,010
Long/short hedge funds	17,309	-	(926)	6,600	-	-	-	22,983
Non-marketable alternatives:								
Venture capital	8,443	963	434	1,044	(1,094)	-	-	9,790
Domestic private equity	7,310	797	(222)	1,025	(1,639)	-	-	7,271
International private equity	9,823	407	(616)	2,067	(752)	-	-	10,929
Distressed debt	9,805	246	(80)	1,650	(2,449)	-	-	9,172
Energy and resources	5,169	436	(480)	2,301	(726)	-	-	6,700
Real estate	2,585	201	113	4,185	(436)	-	-	6,648
Investments	80,304	3,691	(1,977)	32,872	(7,737)	3,567	-	110,720
Beneficial interest in trust held by third parties	5,255	-	-	-	-	-	(19)	5,236
Total Level 3	<u>\$ 85,559</u>	<u>\$ 3,691</u>	<u>\$ (1,977)</u>	<u>\$ 32,872</u>	<u>\$ (7,737)</u>	<u>\$ 3,567</u>	<u>\$ (19)</u>	<u>\$ 115,956</u>

	(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 and 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	<u>\$ 76,155</u>	<u>\$ 4,585</u>	<u>\$ 7,463</u>	<u>\$ (3,283)</u>	<u>\$ 639</u>	<u>\$ 85,559</u>

UNIVERSITY OF SAN DIEGO

NOTES TO FINANCIAL STATEMENTS

Note 3 – Fair Value of Financial Instruments (Continued)

The University recognizes all significant transfers between Levels 1, 2, and 3 at fair value at the end of the reporting period. For the year ended June 30, 2012, the University recorded \$3,567,000 of transfers into Level 3 as a result of a restriction on the redemption period.

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, 2012 and 2011 totaled \$4,044,000 and \$2,342,000, respectively.

The following summarizes these investments by major categories as of June 30, 2012:

	Fair Value	Unfunded Commitment	Redemption	Redemption Notice	Notes
Fixed-income securities:					
Domestic debt securities	\$ 42,781	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	\$ 5,275	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	\$ 15,920	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	\$ 12,217	N/A	90 days after 1 year initial lockup	60 days – maturity	(a)
Domestic bank loans	\$ 8,380	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	\$ 52	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	\$ 35,343	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	\$ 34,816	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	\$ 25,159	N/A	1 – 30 days, with exception to those under gate limitations	1 – 60 days, with exception to those under gate limitations	(a)
Real assets funds	\$ 22,924	N/A	30 days – maturity	30 days – maturity	(b)
Marketable alternatives:					
Absolute return hedge funds	\$ 38,729	N/A	3 – 36 months	30 – 90 days	(c)
Long/short hedge funds	\$ 30,574	N/A	3 – 36 months	30 – 90 days	(d)

(Continued)

UNIVERSITY OF SAN DIEGO

NOTES TO FINANCIAL STATEMENTS

Note 3 – Fair Value of Financial Instruments (Continued)

	Fair Value	Unfunded Commitment	Redemption	Redemption Notice	Notes
Non-marketable alternatives:					
Venture capital	\$ 9,790	\$ 6,123	N/A – Redeemable upon maturity	N/A	(e)
Domestic private equity	\$ 7,271	\$ 4,665	N/A – Redeemable upon maturity	N/A	(f)
International private equity	\$ 10,929	\$ 5,160	N/A – Redeemable upon maturity	N/A	(f)
Distressed debt	\$ 9,172	\$ 1,076	N/A – Redeemable upon maturity	N/A	(g)
Energy & resources	\$ 6,700	\$ 8,779	N/A – Redeemable upon maturity	N/A	(h)
Real estate	\$ 6,648	\$ 4,363	N/A – Redeemable upon maturity	N/A	(i)

- (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.
- (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 seven 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.

UNIVERSITY OF SAN DIEGO

NOTES TO FINANCIAL STATEMENTS

Note 4 – Accounts and Loans Receivable

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

	2012	2011
Student loans receivable	\$ 36,083	\$ 34,193
Student accounts receivable for tuition and fees	8,745	8,139
Other receivables	<u>3,820</u>	<u>4,433</u>
	48,648	46,765
Less allowance for doubtful accounts	<u>(6,066)</u>	<u>(6,140)</u>
	<u>\$ 42,582</u>	<u>\$ 40,625</u>

The University's student loans receivable consist of institutional and federal-sponsored loans due from both current and former students. Student loans and allowance for student loan doubtful accounts at June 30 (in thousands):

Institutional loans	\$ 22,579	\$ 21,178
Federally-sponsored loans	<u>13,504</u>	<u>13,015</u>
	36,083	34,193
Less allowance for doubtful accounts	<u>(5,340)</u>	<u>(5,012)</u>
	<u>\$ 30,743</u>	<u>\$ 29,181</u>

Institutional loans are funded by donor funds restricted for student loan purposes. Federally-sponsored loans are funded by advances to the University primarily under the Federal Perkins Loan Program (the "Program"). Loans to students under the Program are subject to mandatory interest rates and significant restrictions, and loans issued under the program can be assigned to the federal government in certain non-repayment situations. In these situations, the federal portion of the loan balance is guaranteed.

Amounts received under the Program are ultimately refundable to the federal government in the event the University no longer participates in the Program and accordingly, have been reported as refundable advances in the statements of financial position.

UNIVERSITY OF SAN DIEGO

NOTES TO FINANCIAL STATEMENTS

Note 5 - Contributions Receivable

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

	2012	2011
Unconditional pledges:		
Less than one year	\$ 2,316	\$ 2,113
One to five years	10,982	7,941
Over five years	<u>33,119</u>	<u>19,501</u>
	46,417	29,555
Less present value discount (1.2 and 2.8 percent at June 30, 2012 and 2011, respectively)	(6,468)	(7,260)
Less allowance for uncollectibility	<u>(12,365)</u>	<u>(7,246)</u>
Net pledges receivable	27,584	15,049
Split-interest agreements - over five years	<u>6,851</u>	<u>6,869</u>
	<u>\$ 34,435</u>	<u>\$ 21,918</u>

At June 30, 2012, the largest outstanding donor pledge balance represented 43 percent of the University's gross pledges receivable. At June 30, 2011, the largest outstanding donor pledge balance represented 24 percent of the University's gross pledges receivable. 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 range of generally 1.2 to 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.

Note 6 - Property, Plant, and Equipment

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

Land and improvements	\$ 51,028	\$ 47,211
Buildings and improvements	456,782	454,913
Furniture, equipment, and capital leases	23,062	19,524
Library books	48,131	47,822
Construction in progress	<u>7,558</u>	<u>4,804</u>
	586,561	574,274
Less accumulated depreciation	<u>(126,762)</u>	<u>(116,610)</u>
	459,799	457,664
Art collection	<u>4,062</u>	<u>4,072</u>
	<u>\$ 463,861</u>	<u>\$ 461,736</u>

UNIVERSITY OF SAN DIEGO

NOTES TO FINANCIAL STATEMENTS

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

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.

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 \$14,695,000 and \$15,098,000 for the years ended June 30, 2012 and 2011, 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):

	2012	2011
Fair value of designated assets	\$ 2,972	\$ 2,839
Post-retirement benefit obligation	<u>2,472</u>	<u>2,354</u>
Over funded	<u>\$ 500</u>	<u>\$ 485</u>

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

Benefit costs	\$ 15	\$ 15
Benefit payments	112	107
Contributions	118	27

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.

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 \$13,064,000 and \$12,477,000 for the years ended June 30, 2012 and 2011, respectively.

UNIVERSITY OF SAN DIEGO

NOTES TO FINANCIAL STATEMENTS

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 \$2,145,500 of the line has been earmarked for letters of credit related to insurance policies. The renewable line of credit is effective through February 1, 2013 and may be used for working capital purposes. There were no borrowings under this line at June 30, 2012 and 2011.

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, 2012 and 2011 was \$7,144,000 and \$7,791,000, respectively, and is included in other liabilities in the statements of financial position.

The following table sets forth the University's payment requirements as of June 30, 2012 on the term loan for each of the next five years and thereafter (in thousands):

Years ending June 30,	
2013	\$ 687
2014	730
2015	776
2016	825
2017	877
Thereafter	<u>3,249</u>
	<u>\$ 7,144</u>

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 \$3,108,000 and \$3,914,000 at June 30, 2012 and 2011, respectively. Accumulated amortization for equipment recorded under capital leases was approximately \$1,815,000 and \$2,158,000 at June 30, 2012 and 2011, 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, 2012 on capital lease obligations for each of the next three years (in thousands):

Years ending June 30,	
2013	\$ 708
2014	462
2015	<u>75</u>
	<u>\$ 1,245</u>

UNIVERSITY OF SAN DIEGO

NOTES TO FINANCIAL STATEMENTS

Note 10 - Bonds Payable

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

	2012	2011
2011 A California Municipal Finance Authority bonds (the "2011 bonds"), with interest rates varying between 5 and 5.25 percent, payable on April 1 and October 1 each year, maturing: Serial bonds, due October 2028	\$ 17,910 <u>17,910</u>	\$ - <u>-</u>
Unamortized original issue premium	<u>1,028</u>	<u>-</u>
	<u>18,938</u>	<u>-</u>
2011 B California Municipal Finance Authority bonds (the "2011 bonds"), with interest rates varying between 3 and 5 percent, payable on April 1 and October 1 each year, maturing: Series 2011 B bonds, due October 2041	23,220 <u>23,220</u>	- <u>-</u>
Unamortized original issue premium	<u>1,335</u>	<u>-</u>
	<u>24,555</u>	<u>-</u>
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	16,915 <u>16,915</u>	18,640 <u>18,640</u>
Unamortized original issue premium	<u>827</u>	<u>899</u>
	<u>17,742</u>	<u>19,539</u>
2005 California Statewide Communities Development Authority demand revenue bonds (the "2005 bonds"), with interest rates based on market conditions, varying between 0.04 and 0.27 percent during the year ended June 30, 2012, payable on April 1 and October 1 each year, maturing October 2045	93,415 <u>93,415</u>	93,415 <u>93,415</u>
Unamortized original issue discount	<u>(173)</u>	<u>(179)</u>
	<u>93,242</u>	<u>93,236</u>

(Continued)

UNIVERSITY OF SAN DIEGO

NOTES TO FINANCIAL STATEMENTS

Note 10 - Bonds Payable (Continued)

	2012	2011
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, refunded July 2012	6,675	6,675
Term bonds, due October 2032, refunded July 2012; (See Note 14)	<u>7,435</u>	<u>7,435</u>
	14,110	14,110
Unamortized original issue discount	<u>(58)</u>	<u>(61)</u>
	<u>14,052</u>	<u>14,049</u>
2001 County of San Diego certificates of participation (the "2001 COPs"), refunded October 2011	-	25,860
Unamortized original issue discount	<u>-</u>	<u>(586)</u>
	<u>-</u>	<u>25,274</u>
1999 California Educational Facilities Authority revenue bonds (the "1999 bonds"), comprised of 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	-	19,200
Capital appreciation bonds, due October 2009 through October 2024	<u>9,967</u>	<u>10,785</u>
	9,967	29,985
Unamortized original issue discount	<u>(49)</u>	<u>(130)</u>
	<u>9,918</u>	<u>29,855</u>
	<u>\$ 178,447</u>	<u>\$ 181,953</u>

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 from this refunding in other non-operating changes on the statement of activities during the year ended June 30, 2011.

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 University recorded a \$1,216,000 loss from this refunding in other non-operating changes on the statement of activities during the year ended June 30, 2012.

UNIVERSITY OF SAN DIEGO

NOTES TO FINANCIAL STATEMENTS

Note 10 - Bonds Payable (Continued)

The 2011, 2011A, 2011B, 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, 2012 and 2011, there were no draws against this letter of credit.

The estimated fair value of the University's bonds payable was approximately \$190,832,000 and \$191,449,000 at June 30, 2012 and 2011, respectively. The fair value was derived using estimated market prices on publicly traded debt.

The following table sets forth the University's principal payment requirements as of June 30, 2012 on bonds payable for each of the next five years and thereafter (in thousands):

Years ending June 30,	<u>2011 A Bonds</u>	<u>2011 B Bonds</u>	<u>2011 Bonds</u>	<u>2005 Bonds</u>	<u>2002 Bonds</u>	<u>1999 Bonds</u>	<u>Total</u>
2013	\$ -	\$ 400	\$ 1,420	\$ 535	\$ -	\$ 771	\$ 3,126
2014	-	400	1,475	555	-	721	3,151
2015	-	405	1,525	575	-	686	3,191
2016	-	425	1,580	595	-	650	3,250
2017	-	425	1,355	620	-	729	3,129
Thereafter	17,910	21,165	9,560	90,535	14,110	6,410	159,690
	<u>\$ 17,910</u>	<u>\$ 23,220</u>	<u>\$ 16,915</u>	<u>\$ 93,415</u>	<u>\$ 14,110</u>	<u>\$ 9,967</u>	<u>\$ 175,537</u>

UNIVERSITY OF SAN DIEGO

NOTES TO FINANCIAL STATEMENTS

Note 11 - Net Assets

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

	2012	2011
Educational programs	\$ 42,308	\$ 49,079
Scholarships	13,802	16,591
Athletics and recreation	861	922
Public service	8,040	7,760
Research	<u>-</u>	<u>1</u>
Total program support	65,011	74,353
 Management and general support	 <u>40,553</u>	 <u>29,780</u>
	<u>\$ 105,564</u>	<u>\$ 104,133</u>

Net assets released from restrictions are as follows:

Purpose restricted	<u>\$ 10,543</u>	<u>\$ 9,464</u>
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Permanently restricted net assets are restricted to the following purposes at June 30 (in thousands):

Revolving student loan funds from private sources	<u>\$ 22,201</u>	<u>\$ 22,024</u>
 Investment in perpetuity, the income from which is expendable to support the following programs:		
Educational programs	98,170	95,751
Scholarships	28,739	26,669
Athletics and recreation	229	229
Public service	<u>3,000</u>	<u>3,000</u>
Total program support	130,138	125,649
Management and general support	<u>11,000</u>	<u>6,503</u>
	<u>141,138</u>	<u>132,152</u>
	<u>\$ 163,339</u>	<u>\$ 154,176</u>

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.

UNIVERSITY OF SAN DIEGO

NOTES TO FINANCIAL STATEMENTS

Note 12 - Endowment (Continued)

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.

Endowment Net Assets: The following represents a description of the endowment net asset composition by type of fund as of June 30, 2012 and 2011 (in thousands):

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment fund	\$ (59)	\$ 69,179	\$ 141,118	\$ 210,238
Board designated/quasi-endowment funds	135,355	-	-	135,355
Total endowment	<u>\$ 135,296</u>	<u>\$ 69,179</u>	<u>\$ 141,118</u>	<u>\$ 345,593</u>
	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	<u>\$ 121,766</u>	<u>\$ 71,152</u>	<u>\$ 133,903</u>	<u>\$ 326,821</u>

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 \$59,000 and \$21,000 at June 30, 2012 and 2011, 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.

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NOTES TO FINANCIAL STATEMENTS

Note 12 - Endowment (Continued)

The following represents the changes in endowment net assets for the years ended June 30, 2012 and 2011 (in thousands):

	2012			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Net endowment assets, beginning of year	\$ 121,766	\$ 71,152	\$ 133,903	\$ 326,821
Investment return:				
Investment income, net	836	1,005	-	1,841
Net (depreciation)	(2,511)	(4,745)	-	(7,256)
Total investment return	(1,675)	(3,740)	-	(5,415)
Contribution and other revenue	591	7,920	8,987	17,498
Appropriation and other expenditures	(118)	(5,410)	-	(5,528)
Other changes, including transfers	14,732	(743)	(1,772)	12,217
Net endowment assets, end of year	<u>\$ 135,296</u>	<u>\$ 69,179</u>	<u>\$ 141,118</u>	<u>\$ 345,593</u>
	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	<u>\$ 121,766</u>	<u>\$ 71,152</u>	<u>\$ 133,903</u>	<u>\$ 326,821</u>

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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 \$1,916,000 and \$1,972,000 at June 30, 2012 and 2011, 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 statements 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 statements 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 statements of financial position, but arose after the statements of financial position date and before the financial statements are available to be issued.

The University has evaluated subsequent events through October 22, 2012, which is the date the financial statements were issued.

In July 2012, the University issued \$9,630,000 in fixed-rate, tax-exempt bonds through the California Municipal Finance Authority for the sole purpose of refunding the 2002 term bonds. This refunding will assist the University in achieving future debt service savings. The University paid down \$3,500,000 in principal and recorded an approximate loss totaling \$266,000.