Financial Statements and Report of Independent Certified Public Accountants

UNIVERSITY OF LA VERNE

For the Year Ended June 30, 2012 (with summarized financial information for the year ended June 30, 2011)

Contents

Audit – Tax – Advisory

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Report of Independent Certified Public Accountants

Board of Trustees
University of La Verne

We have audited the accompanying statement of financial position of University of La Verne (the "University") as of June 30, 2012, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the University's 2011 financial statements which were audited by other auditors. Those auditors expressed an unqualified opinion on those financial statements in their report dated November 4, 2011.

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

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

Grant Thornton LLP

Los Angeles, California
November 6, 2012

University of La Verne

STATEMENTS OF FINANCIAL POSITION

As of June 30, 2012 and 2011

(with summarized financial information as of June 30, 2011)

	2012	2011
Assets		
Cash and cash equivalents	$ 44,884,902	$ 44,212,759
Cash whose use is limited	23,331,868	37,565,960
Accounts and notes receivable, net	7,628,108	8,260,127
Pledges receivable, net	671,836	731,877
Prepaid expenses and other assets	4,420,612	4,259,118
Investments	47,412,613	46,866,409
Property, plant and equipment, net	121,085,385	96,575,063
Total assets	$ 249,435,324	$ 238,471,313
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued liabilities	$ 9,814,838	$ 12,326,814
Student deposits and deferred revenues	11,335,006	9,990,696
Actuarial liability for annuity obligations	3,173,864	3,373,437
Bonds and notes payable	91,176,078	90,075,497
Federal student loan funds	2,836,416	2,839,306
Total liabilities	118,336,202	118,605,750
Net assets		
Unrestricted		
Available for operations	12,077,296	11,530,698
Designated for		
Funds functioning as endowment	14,932,634	13,768,928
Facilities and equipment	71,660,831	61,213,080
Total unrestricted	98,670,761	86,512,706
Temporarily restricted	12,416,447	13,381,942
Permanently restricted	20,011,914	19,970,915
Total net assets	131,099,122	119,865,563
Total liabilities and net assets	$ 249,435,324	$ 238,471,313

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

University of La Verne

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2012
(with summarized financial information for the year ended June 30, 2011)

	2012				2011
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Revenues					
Student tuition and fees	$ 144,928,636	$ -	$ -	$ 144,928,636	$ 135,451,548
Less: Student financial aid	(35,000,120)	-	-	(35,000,120)	(31,743,647)
Net student tuition and fees	109,928,516	-	-	109,928,516	103,707,901
Private gifts and grants	4,070,224	695,291	70,469	4,835,984	4,390,684
Government grants	3,005,522	-	-	3,005,522	3,304,323
Sponsored programs	52,640	-	-	52,640	10,550
Investment income	422,402	614,022	-	1,036,424	993,817
Auxiliary enterprises	5,608,151	-	-	5,608,151	5,302,123
Annuity and trust gifts	-	10,000	-	10,000	78,000
Other	1,454,208	30,508	-	1,484,716	1,271,887
Net assets released from restriction	1,067,832	(1,067,832)	-	-	-
Total revenues	125,609,495	281,989	70,469	125,961,953	119,059,285
Expenses					
Instruction	52,723,750	-	-	52,723,750	49,318,431
Academic support	17,109,684	-	-	17,109,684	17,339,021
Student services	16,141,302	-	-	16,141,302	15,012,745
Institutional support	23,692,067	-	-	23,692,067	24,935,287
Auxiliary enterprises	4,140,575	-	-	4,140,575	4,120,455
Total expenses	113,807,378	-	-	113,807,378	110,725,939
Increase in net assets from operating activities	11,802,117	281,989	70,469	12,154,575	8,333,346
Nonoperating activities					
Net gains (losses) on investments	334,596	(1,018,021)	-	(683,425)	6,224,913
Net gains on retirement of interest rate SWAPs	-	-	-	-	995,090
Increase in fair value of interest rate SWAPs	21,342	-	-	21,342	31,516
Net loss on defeasance of bonds	-	-	-	-	(887,709)
Net gains on retirement of debt	-	-	-	-	53,777
Net change in actuarial obligations	-	(229,463)	(29,470)	(258,933)	(96,706)
Increase/(decrease) in net assets from non-operating activities	355,938	(1,247,484)	(29,470)	(921,016)	6,320,881
Change in net assets	12,158,055	(965,495)	40,999	11,233,559	14,654,227
Net assets at beginning of year	86,512,706	13,381,942	19,970,915	119,865,563	105,211,336
Net assets at end of year	$ 98,670,761	$ 12,416,447	$ 20,011,914	$ 131,099,122	$ 119,865,563

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

University of La Verne

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2012
(with summarized financial information for the year ended June 30, 2011)

	2012	2011
Cash flows from operating activities		
Change in net assets	$ 11,233,559	$ 14,654,227
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Amortization expense	83,375	81,347
Bad debt expense	434,431	486,866
Depreciation	5,268,259	5,090,342
Loss on defeasance of bonds	-	887,709
Gain on retirement of debt	-	(53,777)
Loss on disposal of asset	-	12,460
Contributions of investments and property	(2,946,927)	(2,193,658)
Net realized and unrealized gain on investments	(179,145)	(6,224,913)
Adjustment of actuarial liabilities	(76,298)	(242,579)
Contributions restricted for long-term investment	(70,469)	(229,085)
Adjustment to cash surrender value - life insurance	(29,485)	(44,205)
Change in assets and liabilities, net of effects from noncash activities		
Accounts and other receivables	78,983	256,280
Pledges receivable, net	37,604	190,798
Prepaid expenses and other assets	(244,869)	(2,171,834)
Accounts payable and accrued liabilities	(5,117,206)	(2,873,012)
Actuarial liability for annuity obligations	335,046	335,816
Student deposits and deferred revenues	1,344,310	1,912,929
Net cash provided by operating activities	10,151,168	9,875,711
Cash flows from investing activities		
Purchases of plant and equipment	(22,823,351)	(14,136,394)
Purchases of investments	(5,623,494)	(7,091,036)
Proceeds from sales and maturity of investments	5,275,090	4,484,930
Net change in student notes receivable	146,302	(77,332)
Net cash used in investing activities	(23,025,453)	(16,819,832)

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

University of La Verne

STATEMENT OF CASH FLOWS - CONTINUED

For the Year Ended June 30, 2012
(with summarized financial information for the year ended June 30, 2011)

	2012	2011
Cash flows from financing activities		
Proceeds from contributions for investment in endowment	70,469	229,085
Investment income on annuity obligations	102,497	115,162
Payments on life income and annuity obligations	(458,321)	(499,102)
Proceeds from issuance of bonds	-	68,476,915
Issuance costs of bonds	-	2,053,085
Payments on bonds payable	-	(31,133,750)
Payments on notes payable	(399,419)	(1,104,083)
Change in federal student loan funds	(2,890)	(4,758)
Use (receipt) of cash whose use is limited	14,234,092	(31,565,717)
Net cash provided by financing activities	13,546,428	6,566,837
Net increase (decrease) in cash and cash equivalents	672,143	(377,284)
Cash and cash equivalents at beginning of year	44,212,759	44,590,043
Cash and cash equivalents at end of year	$ 44,884,902	$ 44,212,759
Supplementary cash flow information		
Cash paid for interest	$ 4,748,207	$ 3,930,017
Non cash gifts - investments and property received	$ 2,946,927	$ 2,193,658
Acquisition of capital assets	$ 2,605,230	$ 3,026,284
Notes issued for purchase of property	$ 1,500,000	$ -

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

NOTE 1 - NATURE OF OPERATIONS

The University of La Verne (the "University") was founded in 1891 as an independent coeducational liberal arts and science college. The University consists of the College of Arts and Sciences, the College of Business and Public Management, the College of Law, the College of Education and Organizational Leadership, and the Regional Campus Administration. The University derives most of its revenue from tuition and student fees and from gifts made by individuals, corporations and foundations. The objective of the University as a nonprofit educational institution is service, and the primary obligation of accounting and reporting is for resources received and applied rather than the determination of net income. The following accounting policies of the University are in accordance with those generally accepted for colleges and universities.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

The financial statements include certain prior-year summarized financial information in total but not by net asset category. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the University's financial statements for the year ended June 30, 2011, from which the summarized information was derived.

Net Assets

A description of the three net asset categories follows:

Unrestricted Net Assets are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by actions of the Board of Trustees.

Temporarily Restricted Net Assets include gifts that are subject to donor-imposed restrictions that can be fulfilled by actions of the University pursuant to those stipulations and/or that expire by the passage of time.

Permanently Restricted Net Assets include gifts and contributions subject to donor-imposed stipulations that require the funds be maintained permanently by the University. Generally, the donors of these assets permit the University to use all or part of the investment return on these assets. Such assets primarily include the University's permanent endowment funds.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Net Assets (continued)

Expenses are reported as decreases in unrestricted net assets. Expirations of donor-imposed stipulations that simultaneously increase one class of net assets and decrease another are reported as reclassifications between the applicable classes of net assets. Temporarily restricted contributions received and expended in the same fiscal year are recorded as unrestricted net assets.

Cost Allocations

The financial statements present expenses by functional classification. Depreciation expense is allocated to the functional categories based upon the square foot occupancy of the respective departments or programs. Interest expense is allocated to the functional categories based upon the purpose of the related debt. Plant operations and maintenance represents space-related costs that are allocated to the functional categories based upon the square foot occupancy of the respective departments or programs.

Revenue Recognition

Student tuition and fees are recorded as revenues in the period during which the academic services are rendered. Student tuition and fees received prior to when services are rendered are recorded as deferred revenues. Investment income and gains and losses on investments and changes in other assets and liabilities are reported as an increase or decrease in unrestricted net assets unless their use is restricted by the donor.

Cash and Cash Equivalents

Short-term investments with an original maturity of three months or less at the time of purchase are considered to be cash equivalents. Short-term investments with an original maturity greater than three months, but less than one year are included in investments. Cash and cash equivalents are reported at cost which approximates fair value. The University maintains cash in various financial institutions that periodically, and as of year-end, exceeds federally insured limits. Management does not consider this concentration to be a significant credit risk.

Cash Whose Use Is Limited

Indenture requirements of bond financing (see Note 8, “Bonds and Notes Payable”) provide for the establishment and maintenance of various accounts with trustees. The indenture terms limit the use of these funds to the construction of plant facilities and payment of principal and interest to bond holders. Cash whose use is limited is comprised of cash equivalents, government, and corporate securities and is recorded at cost, which approximates fair value.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Accounts and Notes Receivable

Accounts and notes receivable are reported at net realizable value and face value less an allowance for doubtful accounts, respectively. Accounts receivable are primarily related to student balances related to tuition and fees, and notes receivable are primarily related to student financial aid programs. Accounts and notes receivable are written off against the allowance for doubtful accounts when determined to be uncollectible based upon management's assessment of individual accounts. The allowance for doubtful accounts is estimated based on the University's historical experience and periodic review of individual accounts. The majority of the University's notes receivable represents amounts due under federally guaranteed programs; therefore, no reserves are recorded for the federal portion.

Investments

Investments are stated at fair value. Net gains (losses) on investments, which consist of the realized gains or losses and the unrealized appreciation or depreciation on those investments, are shown in the Statement of Activities.

The alternative investments, which are not readily marketable, are carried at fair values as provided by the investment managers. The University reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and assumptions used in determining the fair value of the alternative investments. Those fair values may differ significantly from the values that would have been used had a ready market for these securities existed as well as the ultimate sale that may be received upon disposition.

Fair Value Measurements of Investments

The University has adopted the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 820, *Fair Value Measurements*. This standard defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The standard provides a consistent definition of fair value which focuses on an exit price between market participants in an orderly transaction.

Treatment of Endowments

In August 2008, FASB issued a position entitled *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), and Enhanced Disclosures for All Endowment Funds.* The standard provides guidance on the net asset classification of donor-restricted endowment funds subject to an enacted version of the UPMIFA and is expected to improve the University's disclosures about its endowment (both donor-restricted and board designated funds). The State of California adopted UPMIFA effective January 1, 2009. As required by U.S. GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Property, Plant and Equipment

Property, plant, and equipment are generally stated at cost or fair value at the date of the gift less accumulated depreciation. Effective July 1, 2010, a monthly depreciation convention was employed whereby assets acquired during any time of the month receive a full month's depreciation. Subsequently, depreciation is computed on a straight-line basis over the estimated useful lives of the assets according to the following schedule:

Buildings	40 years
Equipment	3-7 years
Improvements	20 years

The University records conditional asset retirement obligations associated with the legally required removal and disposal of certain hazardous materials, primarily asbestos, present in its facilities. When an asset retirement obligation is identified, the University records the fair value of the obligation as a liability. The fair value of the obligation is also capitalized as property, plant and equipment and then amortized over the estimated useful life of the associated asset. The fair value of the conditional asset retirement obligations is estimated using a probability weighted, discounted cash flow model. The present value of future estimated cash flows is calculated using a credit-adjusted, interest rate applicable to the University in order to determine the fair value of the conditional asset retirement obligations. As of June 30, 2012, $516,513 of conditional asset retirement obligations is included within accounts payable and accrued liability in the Statement of Financial Position.

Annuity and Life Income Contracts and Agreements

The University has legal title to annuity and life income contracts and agreements subject to life interests of beneficiaries. No significant financial benefit is now being or can be realized until the contractual obligations are released. However, the cost of managing these contracts and agreements are included in unrestricted expenses.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Annuity and Life Income Contracts and Agreements (continued)

The University uses the actuarial method of recording annuity and life income contracts and agreements. Under this method, the asset is recorded at fair value when a gift is received. The present value of the aggregate annuity payable is recorded as a liability, based upon life expectancy tables, and the remainder is recorded as a contribution in the appropriate net asset category. The liability account is charged with payments to beneficiaries. Annual adjustments are made between the liability account and the net assets account for investment income and gains as well as actuarial gains and losses. The actuarial liability is based on the present value of future payments discounted at the University's credit-adjusted rate at the time such contracts were recorded and over estimated lives according to the 2000 census mortality tables.

Reclassification

Certain prior year amounts have been reclassified for consistency with current year presentation. These reclassifications had no impact on the change in net assets.

Use of Estimates

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

Tax Status

The University has been recognized by the Internal Revenue Service and the Franchise Tax Board as a nonprofit corporation exempt from federal and state income tax on its income, other than unrelated business income, under Section 501(c)(3) of the Internal Revenue Code and section 23701d of the California Revenue and Taxation Code, respectively.

In July 2006, FASB issued Accounting Standards Codification ("ASC") Topic No. 740, *Accounting for Uncertainty in Income Taxes*, which requires entities to determine whether it is "more likely than not" that a tax position will be sustained upon examination by the appropriate taxing authorities. An uncertain tax position will not be recognized if it has less than a 50% likelihood of being sustained. The University adopted the provisions of ASC 740 on July 1, 2007. Adoption of this provision did not have an impact on the University's financial statements, as management believes that there are no uncertain tax positions within its financial statements. There have been no material changes in unrecognized benefits as of June 30, 2011 or June 30, 2012, nor are any anticipated in the 12 months following June 30, 2012. There have been no related tax penalties or interest, which would be classified as tax expense in the statement of activities.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Tax Status (continued)

The open federal and state tax years are as follows:

Jurisdiction	Open Tax Years
Federal – US	2008 through 2011
California	2007 through 2011

Adoption of New Accounting Guidance

The FASB issued Accounting Standards Update ("ASU") No. 2010-06, *Improving Disclosure about Fair Value Measurements,* that provides for new disclosure requirements related to fair value measurements. The requirements, which the University adopted effective July 1, 2010, include separate disclosure of significant transfers in and out of Levels 1 and 2 and the reasons for the transfers. The update also clarified existing disclosure requirements for the level of disaggregation, inputs and valuation techniques. Since the guidance affects disclosures only, the adoption did not have a material impact on the University's financial statements. In addition, effective July 1, 2011, the Level 3 reconciliation of fair value measurements using significant unobservable inputs should include gross rather than net information about purchases, sales, issuances and settlements. The adoption of this guidance did not have a material impact on the University's financial position and results of operations as of and for the year ended June 30, 2012.

NOTE 3 - ACCOUNTS AND NOTES RECEIVABLE

Accounts and notes receivable at June 30, 2012 consists of the following:

a) Student accounts receivable, net of allowance for doubtful accounts of $352,410	$ 1,779,591
b) Student notes receivable, net of allowance for doubtful accounts of $80,000	4,701,928
c) Other receivables, net of allowance for doubtful accounts of $2,693,306	1,146,589
Total accounts and notes receivable	$ 7,628,108

NOTE 3 - ACCOUNTS AND NOTES RECEIVABLE - Continued

For fiscal year ended June 30, 2011, the University adopted the required disclosures under ASU 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*. According to this guidance, the University is required to disclose the nature of credit risk inherent in the portfolio of financing receivables, its analysis and assessment in arriving at the allowance for credit losses (doubtful accounts), and the changes and reasons for those changes in the allowance for credit losses.

Long-term financing receivables at June 30, 2012 consist of the following:

	Financing Receivables	Allowance for Doubtful Accounts	Net
Perkins loans	$ 2,526,774	$ -	$ 2,526,774
Other student loans	2,255,154	80,000	2,175,154
Total	$ 4,781,928	$ 80,000	$ 4,701,928

Management regularly assesses the adequacy of the allowance for credit losses by performing ongoing evaluations of the student loan portfolio, including such factors as the differing economic risks associated with each loan category, the financial condition of specific borrowers, the economic environment in which the borrowers operate, the level of delinquent loans, the value of any collateral and, where applicable, the existence of any guarantees or indemnifications. The University's Perkins receivable represents the amounts due from current and former students under the Federal Perkins Loan Program. Loans disbursed under the Federal Perkins Loan program are able to be assigned to the Federal Government in certain non-repayment situations. In these situations, the Federal portion of the loan balance is guaranteed. The other student loans receivable represents the amounts due from current and former students under the University's institutional loan program funded by the Weingart Foundation. On an annual basis, the University replenishes the Weingart funds for those loans that are in a default status, which amounted to $690,637 as of June 30, 2012.

Factors also considered by management when performing its assessment, in addition to general economic conditions and the other factors described above, included, but were not limited to, a detailed review of the aging of the student loan receivable detail and a review of the default rate by loan category in comparison to prior years. The level of the allowance is adjusted based on the results of management's analysis.

NOTE 3 - ACCOUNTS AND NOTES RECEIVABLE - Continued

It is the University's policy to consider a loan delinquent 120 days or more past due. Appropriate notification is sent to the student that the loan is considered in default. The following table illustrates the aging analysis of receivables at June 30, 2012:

	Current	30-59 Days Past Due	60-89 Days Past Due	> 90 Days Past Due	Total Past Due	Total Financing Receivables
Perkins loans	$ 2,070,025	$ 5,063	$ 1,263	$ 450,423	$ 456,749	$ 2,526,774
Other student loans	1,562,550	1,035	573	690,996	692,604	2,255,154
Total	$ 3,632,575	$ 6,098	$ 1,836	$ 1,141,419	$ 1,149,353	$ 4,781,928

NOTE 4 - PLEDGES RECEIVABLE

Pledges receivable consists of unconditional promises to give to the University in the future and are recorded at their estimated fair value. Pledges due beyond one year have been discounted at rates ranging from 4.7% to 6.0%.

Pledges at June 30, 2012 are expected to be realized as follows:

Due in less than one year	$ 265,000
Due in one to five years	413,667
Due in more than five years	250,000
Total pledges receivable	$ 928,667

Pledges receivable at June 30, 2012 are intended for the following uses:

Facilities and equipment	$ 913,667
Endowment	15,000
Allowance for doubtful pledges	(122,265)
Less: discount	(134,566)
Pledges receivable, net	$ 671,836

NOTE 5 - INVESTMENTS

Investments consisted of the following at June 30, 2012, stated at fair value:

	Fair Value
Short-term investments	$ 2,404,485
Mutual funds	17,478,718
Equities	7,354,661
Fixed income	12,803,001
Alternative investments	4,982,889
Insurance policies	2,065,754
Total	$ 47,089,508

In addition to the investments carried at fair value, the University holds $323,105 in real estate investments, which are carried at cost.

U.S. GAAP has established a framework to measure fair value, and defined the required disclosures about fair value measurements. FASB ASC 820, *Fair Value Measurements*, favors the use of market-based information over entity-specific information. The standard prescribes a three-level hierarchy for fair value measurements based on the transparency of information, such as the pricing source, used in the valuation of an asset as of the measurement date.

Investments measured and reported at fair value are classified and disclosed in one of the following categories.

Level I – Quoted prices are available in active markets for identical investments as of the reporting date, without adjustment. The type of investments in Level I include listed equities held in the name of the University, and exclude listed equities and other securities held indirectly through commingled funds.

Level II – Pricing inputs, including broker quotes, are generally those other than exchange quoted prices in active markets, which are either directly or indirectly observable as of the measurement date, and fair value is determined through the use of models or other valuation methodologies.

Level III – Pricing inputs are unobservable for the investment and includes situations where there is little, if any, market activity for the investment. Investments that are included in this category generally include privately held investments and securities held in partnership format, and for these the Net Asset Value (“NAV”) as a practical expedient has been used.

NOTE 5 - INVESTMENTS - Continued

Fair Value Hierarchy of Investments

The following table presents the University's fair value hierarchy levels as of June 30, 2012:

	Level I	Level II	Level III	Total
Equities and fixed income				
Equity securities - U.S.	$ 5,915,036	$ -	$ 35,800	$ 5,950,836
Equity securities - non-U.S.	1,403,825	-	-	1,403,825
Fixed income securities - U.S.	-	12,803,001	-	12,803,001
Cash equivalents	-	2,405,262	-	2,405,262
Mutual funds	17,478,718	-	-	17,478,718
Hedge fund - fund of funds	-	-	4,982,889	4,982,889
Contributed life insurance	-	-	2,064,977	2,064,977
Balance at June 30, 2012	$ 24,797,579	$ 15,208,263	$ 7,083,666	$ 47,089,508

Equity securities – U.S. – These investments are comprised primarily of common stocks in U.S. companies and are intended to provide income and capital growth. Those traded on an active exchange and priced using unadjusted market quotes for identical assets are classified as Level I. Those securities not traded on an active exchange are classified as Level III.

Equity securities – non-U.S. – These investments are comprised primarily of common stocks in companies located in Europe and Asia and are intended to provide income and capital growth. These securities are traded on an active exchange, are priced using unadjusted market quotes for identical assets, and are classified as Level I.

Fixed income securities – U.S. – These investments are U.S. assets and include U.S. Treasury and Agency issues, corporate bonds, and other asset-backed securities. These securities are intended to provide long-term real returns while focusing on principal preservation. They are classified as Level II as the valuation is derived from pricing inputs other than unadjusted market quotes of identical assets.

Cash equivalents – Cash equivalents include cash deposits in short-term money market funds which seek to provide current income while maintaining liquidity and a stable price per share. Cash equivalents are classified as Level II based on quotes of similar assets.

Mutual funds – Mutual funds consist of several distinct funds with varying portfolio compositions and objectives. These investments are traded on an active exchange, are priced using unadjusted market quotes for identical assets, and are classified as Level I.

NOTE 5 - INVESTMENTS - Continued

Hedge fund – Fund of funds – These funds are primarily composed of equities, specialized debt and credit instruments, and multi-strategy assets. The underlying funds invest in long and short common stocks of U.S. and non-U.S. issuers; long and short corporate bonds and other fixed income securities, including distressed securities of both U.S. and non-U.S. issuers; and other investment vehicles including but not limited to risk arbitrage, convertible bond arbitrage, and intra-capital arbitrage. Pricing inputs are unobservable for these investments, and there is not an active trading market. As such, they are classified as Level III.

Contributed life insurance – These funds are primarily invested in annuity contracts, U.S. and foreign equities, and debt instruments. Pricing inputs are unobservable for these investments, and there is not an active trading market. As such, they are classified as Level III.

The following table summarizes the University's Level III reconciliation as of June 30, 2012:

	Beginning Balance	Unrealized Gain (Loss)	Gross Sales	Gross Purchases	Ending Balance
Stocks-private equity	$ 35,802	$ (2)	$ -	$ -	$ 35,800
Hedge fund - fund of funds	2,996,949	(14,060)	(250,000)	2,250,000	4,982,889
Contributed life insurance	2,035,458	29,519	-	-	2,064,977
Balance at June 30, 2012	$ 5,068,209	$ 15,457	$ (250,000)	$ 2,250,000	$ 7,083,666

The University recognizes transfers in and out of Level III at the beginning of the fiscal year.

FASB issued guidance on how organizations should estimate the fair value of certain alternative investments. The fair value of such investments can be determined using NAV as a practical expedient, unless it is probable that the asset will be sold at something other than NAV. The following table lists the University's alternative investments by major investment category:

Category of Investment	Investment Strategy	Fair Value Determined Using NAV	Number of Funds	Unfunded Commitment	Remaining Life	Redemption Restrictions and Terms
Hedge fund - Fund of funds	Employing Directional, Defensive, and Other Strategies and a Combination of U.S. and Foreign Assets. Defensive strategies; 4% of allocation - other; 5% of allocation - cash	$ 4,982,889	2	$ -	Not Applicable	Ranging from No Restrictions to 2-Year Rolling Liquidity with 95 Days Notice and a First Available Date: April 1, 2014
Contributed Life Insurance	Employing Directional, Defensive, and Other Strategies. Assets Consist of U.S. and Foreign Assets and are Comprised of Equities and Fixed Income	$ 2,064,977	12	-	Not Applicable	Face Value Benefits are Distributed upon the Maturity of the Policies. Cash Surrender Values are Available upon Request.
Total		$ 7,047,866				

NOTE 6 - ENDOWMENTS

The University's endowment consists of approximately 180 individual donor-restricted funds and board designated restricted funds. The net assets associated with endowment funds are classified and reported based on the existence or absence of donor imposed restrictions. For the board designated funds functioning as endowment, the net assets are classified as unrestricted.

The Board of Trustees of the University has interpreted the UPMIFA as requiring the preservation of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classifies as permanently restricted net assets, (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by UPMIFA.

The following tables present the University's endowment composition, changes, and net asset classifications as of and for the indicated years:

Endowment Net Asset Composition by Type of Fund as of June 30, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Funds				
Donor-restricted endowment	$ (1,006,307)	$ 7,553,242	$ 15,879,025	$ 22,425,960
Board-designated endowment	14,932,634	-	-	14,932,634
Total	$ 13,926,327	$ 7,553,242	$ 15,879,025	$ 37,358,594

Changes in Endowment Net Assets for the Year Ended June 30, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 12,712,257	$ 8,108,045	$ 15,808,556	$ 36,628,858
Total investment (losses)/gains	(285,930)	294,819	-	8,889
Contributions	-	-	70,469	70,469
Appropriation of endowment for expenditure	849,622	(849,622)	-	-
Expended appropriation	(849,622)	-	-	(849,622)
Transfer in/Transfer out	1,500,000	-	-	1,500,000
Endowment net assets, end of year	$ 13,926,327	$ 7,553,242	$ 15,879,025	$ 37,358,594

NOTE 6 - ENDOWMENTS - Continued

Endowment Spending Policy

The Board members of the University, in setting the endowment spending policy, considered the following factors: 1) preservation of asset values, 2) preservation of purchasing power, and 3) consistency of spending over time. The University's Board adopted a spending policy of 4.75% with a view toward balancing the need for expendable funds for University programs against the need to preserve the endowment against inflation. In order to achieve the objective of maintaining purchasing power, the endowment's annual rate of return must equal the annual distribution, plus inflation, plus management, custodial and administrative fees. This spending method protects the University's distribution, which is based on a twelve-quarter moving average, from market volatility. Distributions are provided to students for scholarships, various colleges, and programs in accordance with donor designations.

Return Objectives and Risk Parameters

The University has adopted endowment investment and spending policies that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of endowment assets. Under this policy, the return objective for the endowment assets, measured over a full market cycle, shall be to maximize the return against a blended index, based on the endowment's target allocation applied to the appropriate individual benchmarks. The University expects its endowment funds over time to provide an average rate of return of approximately 10% annually. Actual returns in any given year may vary.

Relationship of Spending Policy to Investment Objectives

As discussed above, the University's Board of Trustees determines the method to be used to appropriate endowment funds for expenditure. In establishing this policy, the Board considered the expected long-term rate of return on its endowment. Accordingly, over the long term, the University expects that the endowment's investments will earn 4% - 5% in excess of what is spent annually for the support of scholarships and programs. Thus, taking into consideration a 4.75% spending policy, higher education inflation, and endowment management fees, the endowment's average expected return should be approximately 10%.

Endowment Funds with Deficits

As a result of market activity, the fair value of certain donor-restricted endowments is less than the historical cost value of such funds by approximately $1,006,307 at June 30, 2012. These unrealized losses have been recorded as reductions in unrestricted net assets. Future market 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 6 - ENDOWMENTS - Continued

Pooled Endowments

Certain endowments are pooled where permitted by gift agreement and/or applicable government regulations. Pooled endowments and the allocation of the related investment income are accounted for on a unit market method. Each individual fund subscribes to or disposes of units on the basis of the value per unit on the preceding quarter valuation date.

The following table presents a summary pertaining to the pooled endowments as of and for the year ended June 30, 2012:

Investments in pooled funds, at fair value	$	33,381,596
Unit fair value at end of year (rounded)	$	46.04
Total number of units		725,057
Net ordinary investment income per weighted-average unit	$	0.87

NOTE 7 - PROPERTY, PLANT AND EQUIPMENT

Property, Plant, and Equipment consist of the following at June 30, 2012:

Land	$	19,985,976
Buildings and improvements		97,683,483
Equipment		39,088,554
Asset retirement capitalized cost		103,278
Construction-in-progress		26,297,120
		183,158,411
Less: Accumulated depreciation		(62,073,026)
Total	$	121,085,385

Depreciation expense for the year ended June 30, 2012 was $5,268,259.

Capitalized interest for the year ended June 30, 2012 was $1,910,956.

NOTE 8 - BONDS AND NOTES PAYABLE

Bonds and notes payable include the following at June 30, 2012:

	Interest Rate	Maturity Dates	Total
a) California Municipal Finance Authority ("CMFA") Revenue Bonds Nontaxable Series 2010A	4.75% - 6.40%	2040	$ 70,530,000
b) California Educational Facilities Authority ("CEFA") Revenue Bonds Nontaxable Series 2005A	4.00% - 5.00%	2035	17,930,000
c) Note payable - A Street Property	6.00%	2017	1,000,000
d) Bank note payable	6.50%	2013	255,631
e) Note payable – Metropolitan Water District Property	5.25%	2015	488,694
f) Note payable – Davenport Dining Hall	0%	2022	500,000
g) Note payable – Weingart Foundation	0%	-	471,753
Total			$ 91,176,078

Principal payments on the obligations for each of the next five fiscal years, excluding the note payable to the Weingart Foundation (the "Foundation"), are as follows:

2013	$ 418,592
2014	2,313,892
2015	2,295,134
2016	2,386,707
2017	3,340,000
2018 and thereafter	79,950,000
Total	$ 90,704,325

The fair value of the University's bonds payable was approximately $86,850,000 at June 30, 2012. The fair value estimate is based upon the discounted amount of future cash outflows utilizing current rates offered for debt of similar maturities. The notes payable are carried at cost, which approximates fair value.

The CMFA 2010A and CEFA 2005A bonds contain covenants relating to maintenance of the University, insurance and other general items. The CMFA 2010A and CEFA 2005A bonds are collateralized by parcels of land. The University was in compliance with its debt covenants for the year ended June 30, 2012.

The bank note payable of approximately $256,000 is collateralized by investments totaling approximately $3,725,000.

The note payable – Weingart Foundation represents a non-interest-bearing loan due to the Weingart Foundation. The University is required to use the funds to make non-interest-bearing loans to qualified students. The funds are repayable to the Foundation three years after notice, which cannot be given earlier than three years from the date of the original loan. Currently, no notice has been given by the Foundation to the University.

NOTE 9 - INTEREST RATE SWAP AGREEMENT

The University has one interest rate swap agreement designed to manage the University's interest costs and risks associated with variable interest rate debt. Under the terms of the swap agreement, the University received cash that has been recorded as revenue and paid cash which has been recorded as interest expense. The estimated value of this agreement increased by $21,342 for fiscal year ended June 30, 2012. The University fair values the interest rate swap agreement using readily available market inputs and considers the fair value measurement to be Level 2 within the fair value hierarchy.

The following table provides a summary of the University's swap:

Swap Counter Party	Effective Date	Expiration Date	Notional Amount	Swap Liability
Wells Fargo Bank	Jun 1, 2006	Mar 1, 2013	$ 1,587,000	$ 5,146

NOTE 10 - LINE OF CREDIT

The University has a $500,000 line of credit bearing interest at the bank's prime interest rate (3.25% at June 30, 2012), expiring February 15, 2013. As of June 30, 2012, there were no outstanding borrowings on this line of credit.

NOTE 11 - NET ASSETS

The classifications of restricted net assets at June 30, 2012 are as follows:

Temporarily restricted	
Annuity and life income agreements restricted for future operations	$ 554,196
Scholarship and grants	2,470,554
Temporarily restricted endowed funds	7,553,242
Pledges and other gifts restricted for future construction	1,838,455
Total temporarily restricted	$ 12,416,447
Permanently restricted	
Endowment to support University programs	$ 15,879,025
Annuity and life income agreements restricted for future endowment	808,528
Revolving student loans	3,324,361
Total permanently restricted	$ 20,011,914

NOTE 12 - FUNDRAISING EXPENSES

For the year ended June 30, 2012, the University incurred fundraising expenses of approximately $3,051,000, which are included in Institutional Support in the accompanying Statement of Activities.

NOTE 13 - EMPLOYEE BENEFIT PLANS

The University participates in two defined contribution retirement plans that provide retirement benefits for employees. The University and plan participants make contributions to purchase individual, fixed or variable annuities equivalent to the retirement benefits earned. The plans require a 5% contribution by the participants and a 10% contribution by the University. University vesting provisions are full and non-forfeitable upon completion of three years of service. University contributions related to the plans were $4,427,419 for the year ended June 30, 2012.

The University maintains an Executive Retirement Plan. The plan is funded by an insurance policy, premiums being paid annually. The current net cash surrender value of the insurance plans is $1,418,202, and there is no future liability as the distributions have been made to the recipients.

NOTE 14 - LEASED PROPERTY

In fiscal year 2010/2011, the University entered into a ten-year lease agreement that included an initial rental abatement of $1,200,000 for the lessee over the life of the lease. The cost of the leased asset is $5,113,819 and the accumulated depreciation as of June 30, 2012 is $161,394. For the year ended June 30, 2012, the University recognized rental income of $180,000, and the rental abatement provided to the lessee was $180,000.

NOTE 15 - COMMITMENTS AND CONTINGENCIES

The University leases certain facilities under lease arrangements for use in its educational programs. Minimum annual lease payments for non-cancelable operating leases are as follows:

For the year ending June 30,		
2013	$	2,115,253
2014		2,008,051
2015		1,353,978
2016		1,144,561
2017		1,159,311
2018 and thereafter		2,976,528
Total	$	10,757,682

NOTE 15 - COMMITMENTS AND CONTINGENCIES - Continued

Leases on facilities contain renewal options and rent escalation clauses based on the Consumer Price Index. Rental expense for operating leases was approximately $2,110,000 for the year ended June 30, 2012.

In the normal course of operations, the University is named as a defendant in lawsuits and is subject to periodic examinations by regulatory agencies. After consultation with legal counsel, management is of the opinion that liabilities, if any, arising from such litigation and examinations would not have a material effect on the University's financial position.

Certain federal grants including financial aid which the University administers and for which it receives reimbursements are subject to audit and final acceptance by federal granting agencies. Current and prior year costs of such grants are subject to adjustment upon audit. The amount of expenditures that may be disallowed by the grantor, if any, cannot be determined at this time, although the University expects such amounts, if any, would not have a significant impact on the financial position of the University.

NOTE 16 - SUBSEQUENT EVENTS

The University has performed an evaluation of subsequent events through November 6, 2012, which is the date the financial statements were available to be issued.