Loyola Marymount University

Financial Statements

May 31, 2012

(With Summarized Financial Information at May 31, 2011)

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Report of Independent Auditors

To the Board of Trustees of
Loyola Marymount University

In our opinion, the accompanying statement of financial position and the related statements of activities and changes in net assets and of cash flows present fairly, in all material respects, the financial position of Loyola Marymount University (the "University") at May 31, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. 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 May 31, 2011 financial statements, and in our report dated October 3, 2011, we expressed an unqualified opinion on those financial statements. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America. 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

October 1, 2012

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Loyola Marymount University
Statement of Financial Position
May 31, 2012
(With Summarized Financial Information at May 31, 2011)

(in thousands)

	2012	2011
Assets		
Cash and cash equivalents	$ 12,061	$ 15,359
Accounts receivable		
Tuition & fees, less allowance for doubtful accounts of $1,112 in 2012 and $1,542 in 2011	4,318	4,197
Other	27,621	28,120
Pledges receivable, net	23,448	21,007
Notes receivable, less allowance for doubtful accounts of $1,666 in 2012 and $2,246 in 2011	40,041	39,319
Investments	404,181	427,017
Prepaid expenses, deferred charges and other assets	8,539	8,096
Plant properties, net	545,330	542,674
Total assets	$ 1,065,539	$ 1,085,789
Liabilities and net assets		
Liabilities		
Accrued payroll expense	$ 9,303	$ 11,920
Accounts payable and accrued expenses	31,872	32,474
Accrued interest expense	34,360	30,453
Deferred revenue and deposits	15,190	14,432
Debt outstanding, net of unamortized premium and discount of $2,548 in 2012 and $1,183 in 2011	168,139	172,846
Loan funds returnable to donor	1,152	1,152
U.S. government grants refundable	10,785	10,884
Annuity liabilities and assets held for others	4,081	4,634
Total liabilities	274,882	278,795
Commitments and contingencies		
Net assets		
Unrestricted	536,352	545,948
Temporarily restricted	89,110	101,113
Permanently restricted	165,195	159,933
Total net assets	790,657	806,994
Total liabilities and net assets	$ 1,065,539	$ 1,085,789

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

Loyola Marymount University
Statement of Activities and Changes in Net Assets
Year Ended May 31, 2012
(With Summarized Financial Information for the Year Ended May 31, 2011)

(in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2012 Total	2011 Total
Revenues, gains and other additions					
Tuition and fees	$ 315,459	$ -	$ -	$ 315,459	$ 301,006
Scholarships	(78,975)			(78,975)	(77,763)
Net tuition and fees	236,484	-	-	236,484	223,243
Investment returns designated for operations	10,710	6,488		17,198	16,706
Contributions and pledges	10,525	5,861		16,386	16,451
Grants	7,143			7,143	9,228
Auxiliary enterprise revenue	35,811			35,811	34,484
Other revenue	7,173			7,173	6,426
Net assets released from restrictions	8,798	(8,798)		-	-
Total operating revenues, gains, and other changes	316,644	3,551	-	320,195	306,538
Expenses					
Instruction	121,794			121,794	116,936
Research	5,401			5,401	4,191
Academic support	29,303			29,303	28,555
Library	12,669			12,669	12,055
Student services	54,712			54,712	50,059
Institutional support	55,183			55,183	52,002
Auxiliary enterprises	25,099			25,099	26,514
Total operating expenses	304,161	-	-	304,161	290,312
Increase in operating net assets	12,483	3,551	-	16,034	16,226
Non-operating revenues and expenses					
Contributions for non-operating purposes	67		3,799	3,866	5,417
Contributions for acquisition of capital assets	656	5,595		6,251	8,332
Investment (losses) returns after amounts designated for current operations	(19,050)	(18,106)	633	(36,523)	50,966
Loss on early extinguishment of debt	(1,034)			(1,034)	-
Net realized and unrealized losses on interest rate swap	(4,640)			(4,640)	(1,447)
Other non-operating (expenses) income	(284)	(7)		(291)	206
Net assets released from restriction	1,513	(1,513)		-	-
Donor redesignations	693	(1,523)	830	-	-
Non-operating revenues (expenses), net	(22,079)	(15,554)	5,262	(32,371)	63,474
(Decrease) increase in net assets	(9,596)	(12,003)	5,262	(16,337)	79,700
Net assets					
Beginning of year	545,948	101,113	159,933	806,994	727,294
End of year	$ 536,352	$ 89,110	$ 165,195	$ 790,657	$ 806,994

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

Loyola Marymount University
Statement of Cash Flows
Year Ended May 31, 2012
(With Summarized Financial Information for the Year Ended May 31, 2011)

(in thousands)

	2012	2011
Cash flows from operating activities		
(Decrease) increase in net assets	$ (16,337)	$ 79,700
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities		
Depreciation and amortization	23,049	21,074
Premium on debt issuance	1,525	-
Net unrealized and realized loss on interest rate swap agreement	4,639	1,447
Realized and unrealized loss (gain) on investments	25,033	(63,297)
Loan receivable forgiveness	1,162	994
(Recovery of) provisions for doubtful notes receivable	(580)	383
Contributions to be used for fixed assets	(6,252)	(8,332)
Contributions to be used for long-term investment	(3,867)	(5,363)
Actuarial change in trust liability	309	288
Changes in assets and liabilities:		
Tuition and fees receivable from students, net	(121)	3,671
Accounts receivable, other	508	(3,253)
Pledges receivable, net	(1,336)	(734)
Prepaid expenses, deferred charges and other assets	(1,243)	(1,305)
Accounts payable and accrued expenses	(1,606)	(1,366)
Deferred revenue and deposits	759	(5,776)
Annuity liabilities and assets held for others	(420)	420
Net cash provided by operating activities	25,222	18,551
Cash flows from investing activities		
Purchases of plant properties	(22,770)	(42,116)
Purchases of investments	(75,229)	(164,443)
Proceeds from sales and maturities of investments	73,023	171,450
Disbursements of loans to students	(6,177)	(6,373)
Repayments of loans by students	4,873	3,988
Net cash used in investing activities	(26,280)	(37,494)
Cash flows from financing activities		
Issuance of CEFA bonds payable	22,105	-
Repayment of CEFA bonds payable	(31,604)	(8,064)
Repayment of U.S. government grants refundable	(100)	(102)
Contributions to be used for fixed assets	3,494	9,671
Contributions to be used for long-term investment	5,520	6,869
Cash payments made under interest rate SWAP agreement	(1,213)	(1,262)
Cash payments made under split-interest agreements	(442)	(452)
Net cash (used in) provided by financing activities	(2,240)	6,660
Net (decrease) in cash and cash equivalents	(3,298)	(12,283)
Cash and cash equivalents		
Beginning of year	15,359	27,642
End of year	$ 12,061	$ 15,359
Supplementary cash flow information		
Non-cash acquisition of plant	$ 2,294	$ 4,507
Securities received as gifts	$ 545	$ 1,052
Interest paid	$ 4,092	$ 3,649

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

1. Summary of Significant Accounting Policies

Organization

Loyola Marymount University (the "University" or "LMU") is a coeducational institution offering undergraduate, graduate and professional degrees, including programs leading to degrees in law and business. The University is a non-profit organization as described in Section 501(c)(3) of the Internal Revenue Code (the "Code") and is exempt from federal income taxes on related income pursuant to the Code and under corresponding sections of the California Revenue and Taxation Code.

Basis of Presentation

The financial statements of the University have been prepared on the accrual basis of accounting to conform to accounting principles generally accepted in the United States of America and with the AICPA Audit and Accounting Guide, *Not-for-Profit Organizations*.

Net Assets

Under generally accepted accounting principles applicable to not-for-profit organizations, net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the University and changes therein have been classified and are reported as follows:

- Unrestricted net assets – Net assets not subject to donor-imposed stipulations; donor-restricted contributions whose restrictions are met in the same reporting period; and quasi endowment net assets designated by the Board of Trustees or management for specific purposes (known as quasi endowment net assets).

- Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that will be met either by actions of the University pursuant to those stipulations and/or by the passage of time.

- Permanently restricted net assets – Net assets subject to donor-imposed stipulations that require the University maintain them in perpetuity. Generally, the donors of these assets permit the University to use all or part of the income earned on related investments for general or specific purposes.

Summarized Comparative Information

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions regarding the reported amounts of assets, liabilities, disclosure of contingent assets and contingent liabilities at the date of the financial statements and those estimates which affect the amounts of revenues and expenses reported during the period. Actual results could differ from those estimates.

Donor Redesignations
Certain amounts previously received from donors have been transferred among net assets categories due to changes in restrictions or gifts by the donor.

Cash and Cash Equivalents
Cash and cash equivalents include cash on hand and temporary investments purchased with an initial maturity of three months or less, excluding those held for long-term investment. The carrying amount of cash and cash equivalents approximates fair value due to the short-term maturity of these financial instruments. In accordance with federal regulations, cash received for Federal Family Education Loans is held in a separate bank account until credited to students' accounts.

Accounts Receivable
Tuition and fees receivable represent amounts due for current or past semesters for which students have registered; amounts collected in advance are deferred and recognized when earned. Management periodically reviews and assesses the collectability of receivables and provides an allowance when collection is doubtful. Historical bad debt experience has been consistent with management's expectations.

Other accounts receivable include receivables from insurance policies and charitable remainder trusts where the University is named a beneficiary but is not the trustee. Present value of the estimated future cash flows from the trusts approximates the value of the underlying assets. Insurance policies are recorded at cash surrender value.

Pledges Receivable
Unconditional promises to give (“pledges”) are recorded as contribution revenue and as receivables. Pledge contributions are classified as temporarily restricted or permanently restricted based on time restrictions or donor-imposed stipulations. Pledges are discounted to present value using a discount rate commensurate with the risk involved. An allowance for uncollectible pledges is estimated by management based on such factors as prior collection history, type of contribution and the nature of the fundraising activity (see Note 2).

Notes Receivable
Student loans are generally funded by government and foundation grants for student financial aid, which the University administers, and are uncollateralized. Student notes receivable have mandated interest rates and repayment terms and are subject to significant restrictions as to their transfer or disposition. Determination of the fair value could not be made without incurring excessive costs. Management reviews and assesses the collectability of notes receivable on an annual basis and provides an allowance when collection is doubtful (see Note 3).

Investments
Investments are stated at fair value (see Note 9). Unrealized and realized gains and losses on investments are reported as increases or decreases to unrestricted, temporarily restricted and permanently restricted net assets depending on donor restrictions, if any (see Note 10). Investment income includes rental income, interest income, royalties, dividends and other investment income, and is reported net of investment management fees (see Note 4). Real estate investments received by gift or bequest are recorded at fair value on the date acquired. The majority of the University’s investments are included in the Endowment Fund, which is a commingled fund composed of various types of investment assets, and largely pooled on a market value per unit basis. The total market value of the Endowment Fund at May 31, 2012 was $358,856,000.

The University has adopted endowment, investment and spending policies in an attempt to preserve and enhance the real purchasing power of the endowment, provide a relatively stable and constant return sufficient to meet a portion of the spending needs of the University, and increase the endowment through unspent income and gains, appreciated value, gifts and other appropriate sources. Thus, the University's overall return objective is to garner an average annual real total return of at least 5.0% per year, net of management fees and inflation, over the long-term (rolling ten-year periods). The return objective may be difficult to achieve in any single year during the ten-year period, but is expected to be attainable over a series of ten-year periods.

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 that is not classified in permanently restricted net assets 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 Uniform Prudent Management of Institutional Funds Act "UPMIFA" and considers the following factors in making a determination to appropriate or accumulate endowment funds: (1) the duration and preservation of the fund; (2) the mission of the University and the donor-restricted endowment fund; (3) general economic conditions; (4) the possible effect of inflation and deflation; (5) the expected total return from income and the appreciation of investments; (6) other resources of the University; and (7) the investment policies of the University.

The total amount to be distributed to the University's operations each fiscal year is based on a target spending rate of 5.0% of the average of the market values at the end of the three prior calendar years. Distribution amounts higher than 5.0% yet less than 7.0% are approved by the Board of Trustees. Distributions greater than 7.0% are not permitted. For the year ended May 31, 2012, the total distribution under the spending policy was $16,475,000 with an additional special Board-approved distribution of $1,752,000 for a total distribution of $18,227,000, or 5.1%. A portion of the endowment distribution was designated for operations, $16,614,000, and the remaining portion of $1,613,000 is recorded in Investment returns after amounts designated for current operations in the Statement of Activities and Changes in Net Assets. Any returns remaining after the distributions are reinvested in the endowment pool as Board-designated endowment funds. Over the long term, this spending policy is expected to enable the University to fulfill its stated investment objectives described above.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the initial and subsequent donor gift amounts, thus creating "underwater" endowment funds. The aggregate underwater amount, if any, is classified as a reduction of unrestricted net assets. The aggregate portion of the endowment that is underwater at May 31, 2012 is $968,000 or 0.27% of the investment pool. This situation is a result of unfavorable market fluctuations that occurred after the investment of newly established endowments.

Plant Properties
Plant assets, which are purchased or constructed, are stated at cost; assets acquired by gift or bequest are stated at fair value at the date of acquisition. The University uses the straight-line method for the computation of depreciation of long-lived assets according to the following schedule of useful lives:

Asset	Life
Buildings	60 years
Equipment	5-20 years
Library Books	20 years
Computer software	5 years
Improvements	20 years

The University uses a half-year convention for all assets except new construction of buildings for which depreciation begins from the date they are placed in service. Depreciation expense for fiscal year 2012 was $22,408,000.

Normal repair and maintenance expenses and minor equipment replacement costs are expensed as incurred. When items are retired or otherwise disposed of, the cost and accumulated depreciation and amortization are removed from the accounts, and any profit or loss on such retirements or disposal is recognized in the year of disposal. 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 May 31, 2012, $1,148,000 of conditional asset retirement obligations is included within accounts payable and accrued expenses in the Statement of Financial Position (see Note 6).

Credit Concentration
Financial instruments that potentially subject the University to concentration of credit risk are cash, cash equivalents, investments, and receivables. The University's cash, cash equivalents, and investments are held by recognized financial institutions. Management regularly reviews its investment policies with the University's investment managers who are also subject to periodic reviews by the University's Endowment Fund Investment Committee. Concentration of credit risk for accounts receivable and student loans receivable is generally limited due to the dispersion of these loans over a wide debtor base.

Revenue Recognition
The University's revenue recognition policies are as follows:

- Tuition and fees, and Scholarships – Student tuition and fees are recorded as revenues in the year in which the related academic services are rendered. Student tuition and fees received in advance of services to be rendered are recorded as deferred revenue. Scholarships are reported in the Statement of Activities and Changes in Net Assets as a reduction of tuition and fees and are recognized in the same manner as described for student tuition and fees (see Note 11).

- Contributions and pledges – Pledges are recorded as receivables and revenues in the year received. For financial reporting purposes, the University distinguishes between contributions of unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. Contributions for which donors have imposed restrictions that limit the use of the donated assets are reported as restricted. When such donor-imposed restrictions are met in subsequent reporting periods, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions. Contributed assets that are subject to perpetual donor restrictions and from which only the current income may be used are classified as permanently restricted net assets. Contributed assets for which donors have not stipulated restrictions, as well as contributions on which donors have placed restrictions which are met within the same reporting period, are reported as unrestricted support.

  Pledges on which payments are receivable in future periods are reported as temporarily restricted. Gifts of land, buildings and equipment are reported as unrestricted unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as temporarily restricted. Absent explicit donor stipulation, the University reports expirations of donor restrictions on long-lived assets when the donated or acquired long-lived asset is placed in service.

- Grants – Revenues from grant contracts are reported as increases in unrestricted net assets as allowable expenditures under such agreements are incurred.

- Auxiliary enterprise revenue – Revenues from supporting services, such as dining facilities, student housing, child care center, and bookstores are recorded at the time of delivery of a product or service. Amounts received in advance of delivery of products or services are recorded as deferred revenue.

- Other revenue – Other revenue includes income generated from athletic activities, commissions from significant vendor contracts, and vehicle registration fees collected at Loyola Law School. Amounts received are recorded at the time of transaction. Amounts not received by year end but earned are accrued and are included in Accounts receivable – other.

Expenses

Expenses are reported as decreases in unrestricted net assets. In the Statement of Activities and Changes in Net Assets expenses are presented by functional classification in accordance with the overall mission of the University and industry standards. Each functional classification includes direct expenses related to the provision of a part of the University's mission, as well as allocated costs such as depreciation, interest expense and plant operating costs. Depreciation expense is allocated based upon square-footage occupancy of University facilities. Interest expense on external debt is allocated to the functional categories which have benefited from the proceeds of the external debt. Plant operations and maintenance represent building occupancy costs, which are allocated to functional categories based upon square-footage occupancy or by specific identification. Square-footage occupancy is adjusted for changes due to new construction or space redistribution.

Included in institutional support expense in the Statement of Activities and Changes in Net Assets for the year ended May 31, 2012, is approximately $10,067,000 of direct expenses related to fundraising.

Non-Operating Revenues and Expenses
Non-operating revenue and expenses consist of amounts which, due to their nature, are not considered by management as part of operations. Specific items include investment results (exclusive of amounts distributed per the spending policy which is included in Investment returns designated for operations), market value adjustment on derivative instruments, and other non-operating items.

Accounting Guidance Not Yet Adopted
In May 2011, the Financial Accounting Standards Board ("FASB") issued an accounting standards update modifying the fair value measurement and disclosure guidance. This amendment results in new disclosures primarily related to Level 3 measurements including quantitative disclosure about unobservable inputs and assumptions, a description of the valuation processes and a narrative description of the sensitivity of the fair value to changes in unobservable inputs. The University will adopt this guidance effective June 1, 2012.

2. Pledges Receivable

The University has undertaken various fundraising campaigns for operational, plant and endowment purposes. Pledges are recorded at fair value estimated by discounting future cash flows at rates ranging from 3.0% to 5.0% per annum. At May 31, 2012, outstanding pledges in connection with these campaigns are reflected in the financial statements and are summarized below:

Pledges expected to be collected are as follows at May 31, 2012 (*in thousands)*:

In one year or less	$	10,097
Between one and five years		14,844
Over five years		2,171
Total pledges receivable		27,112
Less: Allowance for uncollectible pledges		(2,291)
Discount to present value		(1,373)
Total pledges receivable, net	$	23,448

Pledges receivable before allowance or discount at May 31, 2012 have the following designations (*in thousands)*:

Endowment for academic programs and activities	$	5,670
Endowment for scholarships		9,044
Plant properties		7,118
Departmental programs and activities		5,280
Total pledges receivable	$	27,112

3. Notes Receivable

Student Loans

The University makes uncollateralized loans to students based on financial need. Student loans are funded through the Perkins Federal Loan Program, Weingart Foundation Loan Program, and institutional resources. At May 31, 2012 student loans represented 3% of total assets.

At May 31, 2012, student loans and related allowance for doubtful accounts consists of the following (*in thousands*):

	Student Receivable Balance	Related Allowance	Student Receivable Balance, net
Perkins	$ 14,565	$ (470)	$ 14,095
Weingart	10,660	(747)	9,913
Institutional	3,984	(449)	3,535
Total	$ 29,209	$ (1,666)	$ 27,543

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, and the level of delinquent loans. 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 University's Weingart receivable represents the amount due from current and former students under the Weingart Foundation Loan Program. Under the Weingart Foundation Loan Program, students are awarded non-interest bearing loans. Any loans not collected under the Weingart Foundation Loan Program become the University's responsibility for repayment. The University must make whole all loans uncollected under this program. Various other institutional loans are sponsored by donor gifts and are subject to donor restrictions on use of funds. The University manages institutional loans through guidelines included in respective donor gift agreements.

Changes in the allowance for credit losses for the year ended May 31, 2012 were as follows (*in thousands*):

	Student Loan Allowance
Beginning Balance - June 1, 2011	$ (2,246)
Recovery of credit losses	86
Net charge-offs	(141)
Recoveries	635
Ending Balance - May 31, 2012	$ (1,666)

At May 31, 2012, the following amounts were due under the student loan program (*in thousands*):

	Current	1-60 Days Past Due	60-90 Days Past Due	90-120 Days Past Due	120 + Days Past Due	Total Student Loans Receivable
Perkins	$ 12,692	$ 106	$ 193	$ 9	$ 1,564	$ 14,564
Weingart	10,390	174	7	25	64	10,660
Institutional	3,612	61	6	4	302	3,985
						$ 29,209

Faculty and Staff Loans

As part of a program to attract and retain excellent faculty and senior staff, the University provides home mortgage financing assistance. Notes receivable amounting to $12,364,000 were outstanding at May 31, 2012, and are collateralized by deeds of trust on properties concentrated in the region surrounding the University. Loans are granted up to $150,000, interest free per eligible faculty. The loan amounts are forgiven over a 10-year period, following one-year participation in the program, as long as the faculty remains employed at the University per the terms of the agreement. If the faculty member leaves the University prior to the full forgiveness of the loan, the unforgiven balance of the loan is to be repaid to the University. In addition, the University provides both staff and faculty with computer loans as a benefit of employment. Notes of $134,000 were outstanding at May 31, 2012 related to employee computer loans. No allowance for doubtful accounts has been recorded against these loans based on their collateralization and prior collection history.

The loan amounts represent 1% of total assets. At May 31, 2012 there were no amounts past due under the faculty and staff loan program.

4. Investments

Investments consist of the following at May 31, 2012, stated at fair value (*in thousands)*:

Certificates of Deposit	$ 1,691
Corporate bonds	21,425
Government bonds	23,622
Common stock	1,737
Mutual funds	104,512
Commingled funds	102,714
Alternative investment funds	
Hedge funds	77,015
Private equity/venture capital	30,561
Natural resources	31,281
Real estate	1,284
Distressed debt	4,305
Real property and other	4,034
	$ 404,181

The investment goal of the University is to maintain or grow its investments so as to increase financial support to operations and to further enhance the educational mission. In order to achieve this, and also mitigate market risk, the University diversifies its investments among various financial instruments and asset categories, and uses multiple investment strategies. As a general practice, virtually all the financial assets of the University are managed by external investment management firms selected by the University. The University maintains agreements with each of the external investment managers, which provide for compensation in the form of management fees. Most of these managers charge fees directly to fund Net Asset Value ("NAV") on a regular basis, and therefore, the majority of management fees are included in unrealized gains and losses in the Statement of Activities and Changes in Net Assets.

Approximately 63% of the University's investments are invested (directly or indirectly) in publicly traded equities, which are listed on national exchanges, quoted on NASDAQ, or in the over-the-counter market; treasury and agency bonds of the U.S. government; and primarily investment-grade corporate bonds for which an active trading market exists. Net realized and unrealized gains and losses on investments are reflected in the Statement of Activities and Changes in Net Assets as changes in net assets.

The University's alternative investment funds consist of private equity, venture capital, natural resources, distressed debt, real estate, and absolute return hedge funds. These are largely fund-of-funds and are held in partnership or trust format. Approximately 37% of the University's investments as of May 31, 2012 are invested with various limited partnerships that invest (directly or indirectly) in the securities of companies that are not immediately liquid, such as venture capital and buyout firms, and in real estate limited partnerships that have investments in various types of properties.

Included in common stock and mutual funds above are investments held in charitable remainder trusts wherein the University is the trustee and has control over the assets. The aggregate balance of these assets held in trust at May 31, 2012 is $3,068,000.

The following schedule summarizes the investment return and its classification in the Statement of Activities and Changes in Net Assets for the year ended May 31, 2012 (*in thousands)*:

Unrealized and realized losses	$ (25,033)
Interest income, dividends, royalties and rents	6,822
Management fees and other investment related expenses	(1,114)
Total losses on investments	(19,325)
Less: Investments designated for current operations	(17,198)
Investment losses after amounts designated for current operations	$ (36,523)

Investment securities are exposed to various risks, such as changes in interest rates or credit ratings and market fluctuations. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is possible that the University's investments and total net assets balance could fluctuate materially.

5. Plant Properties

At May 31, 2012, plant properties are as follows (*in thousands*):

	Westchester Campus	Law School Campus	Total	Fully Depreciated Assets
Land	$ 44,931	$ 3,265	$ 48,196	$ -
Buildings	385,977	58,318	444,295	177
Equipment	132,241	13,883	146,124	57,673
Library books	27,850	30,789	58,639	12,280
Computer software	16,504	2,877	19,381	15,394
Leasehold improvements	35,970	4,104	40,074	4,794
Building improvements	53,619	2,914	56,533	-
Construction-in-progress	5,647	161	5,808	-
Total cost	702,739	116,311	819,050	$ 90,318
Less: Accumulated depreciation	223,955	49,765	273,720	
Plant properties, net	$ 478,784	$ 66,546	$ 545,330	

6. Accounts Payable and Accrued Expenses

The following table sets forth major components of Accounts Payable and Accrued Expenses as of May 31, 2012 (*in thousands*):

Vendor accounts payable	$	9,266
Postretirement benefits liability		8,997
Accrued vacation expense		6,788
Workers' compensation self-insurance liabilities		2,972
Accrued expenses		2,701
Asset retirement obligations		1,148
	$	31,872

7. Retirement and Other Postretirement Benefits

The University contributes to a retirement plan on behalf of eligible University employees. Under the defined contribution plan, the University and plan participants make contributions to purchase individual annuities or to participate in a variety of mutual funds. Benefits commence upon retirement and pre-retirement survivor death benefits are provided. Amounts expensed for the University's share of these costs were approximately $11,124,000 during the year ended May 31, 2012.

The University currently provides certain health care benefits for retired University employees. Employees become eligible for those benefits if they reach retirement while employed by the University and are at least 65 with 10 years of service. As of May 31, 2012, a net post retirement benefit liability of $8,997,000 is included in accounts payable and accrued expenses (see Note 6). The Statement of Activities and Changes in Net Assets includes the net periodic benefit costs, net of benefits paid, which is allocated among the functional expense classifications. The change in net assets is recorded in other non-operating expenses in the Statement of Activities and Changes in Net Assets. The University's postretirement benefits are funded on a pay-as-you-go basis; therefore the plan has no assets.

The following table sets forth the postretirement benefit plan's unfunded status as of May 31, 2012 and amounts recognized in the Statement of Activities and Changes in Net Assets for the year ended May 31, 2012 (*in thousands*):

Benefit obligation at beginning of year	$	7,325
Net periodic benefit costs		942
Benefits paid		(132)
Change in unrestricted net asset		862
Benefit obligation at end of year	$	8,997

The increase in accumulated postretirement benefit obligation for the year ended May 31, 2012 is primarily attributable to an increase in service and interest cost of $501,000 and $346,000, respectively. In addition, there was an increase in actuarial loss of $862,000 as a result of a decrease in the discount rate to 3.80%.

Components of net periodic benefit costs for the year ended May 31, 2012 are as follows (*in thousands*):

Service cost	$	501
Interest cost		346
Amortization of prior service cost		46
Amortization of loses		49
Net periodic benefit cost	$	942

A one-percentage-point change in assumed healthcare cost trend rates would have the following effects (*in thousands*):

	Increase		Decrease	
Effect on accumulated postretirement benefit obligation	$	1,088	$	(927)
Effect on service and interest cost components		117		(99)

The following benefit payments which reflect expected future service, as appropriate, are expected to be made (*in thousands*):

Fiscal Year Ending May 31,		
2013	$	372
2014		536
2015		576
2016		580
2017		611
2018-2021		3,268

8. Debt Outstanding

Total debt outstanding is composed of bonds payable resulting from borrowings issued through the California Educational Facilities Authority ("CEFA"). Also included is the University's interest rate swap. The University maintains all long-term debt at amortized cost on the Statement of Financial Position, with the exception of the interest rate swap which is maintained at fair value.

In November of 2011, the University issued CEFA Series 2011 Refunding Revenue bonds at par of $22,105,000 plus a premium of $1,525,000. These serial bonds maintain fixed annual interest rates that range from 2.50% to 5.00%. In December of 2011, the University fully redeemed its CEFA Series 2001A Current Interest Bonds at par of $22,765,000 plus a 1.0% call premium. The CEFA Series 2001A Capital Appreciation bonds remain outstanding. Also during fiscal 2012, the University fully repaid all loan balances due to the State of California for two Energy Conservation Assistance loans.

Total debt outstanding at May 31, 2012 is as follows (*in thousands*):

Series	Fiscal Year Maturity Dates	Type of Bond	Interest Rates	Principal Outstanding
2011	2012 - 2025	Refunding revenue bonds	2.50% - 5.00%	$ 22,105
2001A	2015 - 2040	Capital appreciation bonds	5.22% - 5.83%	40,234
2010A	2012 - 2041	Revenue bonds	2.00% - 5.13%	60,530
2010B	2012 - 2016	Variable refunding revenue bonds	SIFMA + 0.80%	34,875
		Total CEFA bond principal outstanding		157,744
		Plus: Total unamortized premium on CEFA borrowings		2,548
		Total amortized cost of CEFA bonds		160,292
		Plus: Fair market of swap agreement		7,847
		Total long-term debt outstanding		$ 168,139

Future principal payment requirements for the CEFA bonds are as follows (*in thousands*):

	CEFA
2013	$ 8,705
2014	9,020
2015	7,234
2016	36,248
2017	6,121
Thereafter	90,416
	$ 157,744

Total interest expense on debt outstanding for fiscal year 2012 was $7,999,000.

The CEFA agreements contain covenants relating to maintenance of the University, insurance and other general items. In addition, the University must at all times maintain unrestricted and temporarily restricted net assets in the aggregate at a market value equal to at least 90% of the outstanding indebtedness.

The estimated fair value of the University's long-term debt bonds outstanding at May 31, 2012 was $158,428,000. Including Series 2001A Capital Appreciation bond accrued interest of $33,715,000, total estimated fair value of CEFA debt outstanding is $192,143,000.

Not all of the University's individual serial bonds trade at or near fiscal year end and thus market prices may be stale. Therefore, fair value was calculated by discounting future cash outflows using the relevant yield curve at May 31, 2012 for similar rated debt of the same remaining maturities. Estimated fair values as of May 31, 2012 are as follows (*in thousands*):

	Principal	Fair Market Value	Price per $100
Series 2001A Capital appreciation bonds	$ 40,234	$ 28,031	70
Series 2010A Revenue bonds	60,530	71,048	117
Series 2010B Variable revenue bonds	34,875	34,875	100
Series 2011 Refunding revenue bonds	22,105	24,474	111
	$ 157,744	158,428	
Accrued interest on Captial appreciation bonds		33,715	
Total CEFA debt outstanding at fair market value		$ 192,143	

At May 31, 2012 the University held one derivative instrument in the form of an interest rate swap which serves to mitigate interest rate risk and cap interest expense. The interest rate swap agreement was not entered into for trading or speculative purposes, and currently qualifies as an effective cash flow hedge on the Series 2010B variable rate bond interest expense, as such cash payments on the interest rate swap are reflected in cash flows from financing activities on the Statement of Cash Flows. Under the terms of the agreement, the University pays a fixed rate of 3.575% on a declining notional amount which is $34,875,000 at May 31, 2012. There are no collateral requirements or contingent features, and the agreement expires in fiscal year 2035. Entering into interest rate swaps involves varying degrees of risk, including the possibility that the counterparty to the swap may default on its obligation to perform, and that there may be unfavorable changes in interest rates and market values. Further, the value of the swap will decrease should interest rates decrease.

9. Fair Value Measurements

Certain University assets and liabilities are measured and reported in the financial statements at fair value on a recurring basis. The fair value hierarchy of valuation techniques is utilized to determine such fair value. The three levels of the fair value hierarchy are as follows:

- Level 1 – Quoted prices available in active markets for identical investments.
- Level 2 – Quoted prices in active markets for similar investments; quoted prices for identical investments in markets that are inactive; and prices based on observable inputs other than an unadjusted quoted price.
- Level 3 – Prices based on significant unobservable inputs.

Valuation inputs may be observable or unobservable, and refer to the assumptions that a market participant would consider significant to value an asset or liability. The determination of what is "observable" requires judgment by the University. In general, the University considers observable inputs to be data that are readily available, regularly updated, reliable, and verifiable. Unobservable inputs may be used when observable inputs are not readily available or current. In this situation, one or more valuation techniques may be used including the market approach (inputs based on recent market transactions or comparables) or the income approach (discounted cash flow).

The table below sets forth the University's assets and liabilities which are fair values on a recurring basis with their associated categorization into Levels 1, 2 and 3 at May 31, 2012 (*in thousands*):

	Level 1	Level 2	Level 3	Total
Asset classification				
Debt securities				
Certificates of deposits	$ -	$ 1,691	$ -	$ 1,691
Corporate bonds		21,425		21,425
Government bonds		23,622		23,622
Equity securities				
Common stock	1,737			1,737
Mutual funds				
Domestic	78,079	165		78,244
International	26,268			26,268
Commingled funds				
Fixed income		16,811		16,811
U.S. Equity		44,133		44,133
International Equity		41,770		41,770
Alternative investment funds				
Hedge funds			77,015	77,015
Private equity/venture capital			30,561	30,561
Natural resources		21,309	9,972	31,281
Real estate			1,284	1,284
Distressed debt			4,305	4,305
Real property			1,900	1,900
Oil & Gas interests			2,134	2,134
Total investment	106,084	170,926	127,171	404,181
Other assets: Split/beneficial interest	-	24,002	-	24,002
Total Assets	$ 106,084	$ 194,928	$ 127,171	$ 428,183
Derivative contracts: Interest rate swap	$ -	$ (7,847)	$ -	$ (7,847)
Total Liability	$ -	$ (7,847)	$ -	$ (7,847)

Level 1: Include the University's investments in mutual funds and common stock that are regularly traded in active markets where quoted prices may be easily obtained.

Level 2: Include the University's investments in debt securities and certain non-listed equity funds that offer a high degree of transparency and liquidity. Debt security prices are obtained from pricing services, or from brokers. Non-listed equity funds that have redemption terms of 90 days or less and consistently transact on a daily, weekly, or monthly basis are valued at manager-reported NAV. Level 2 investments may also be priced using model-based valuation techniques where all assumptions are observable, or by utilizing observable inputs from contractual agreements. These investments include the University's interest rate swap which is valued via discounted cash flow analysis taking into account contractual terms and the relevant current yield curve. These investments also include those maintained as part of split-interest agreements where the University is not the Trustee but is named as the beneficiary. These assets include life insurance policies that are recorded at cash surrender value, and charitable remainder trusts that are recorded at present value of expected proceeds net of any annual distributions.

Commingled funds are directional investments (i.e. long positions only), invested mostly in equity and bond portfolios. The underlying investments are public securities and the funds are held in partnership or trust format.

Level 3: Include the University's alternative investments, which consist of hedge funds, private equity/venture capital funds, real estate funds, natural resource funds, and distressed debt funds. These investments do not typically transact on a regular basis, nor do they have readily determinable fair values. Therefore, the University relies heavily on investment manager-reported valuations, usually in the form of NAV. In certain cases, where NAV is reported on a three-month lag, the University adjusts fair value to reflect funding and any relevant market changes between the report date and the University's fiscal year end. Level 3 investments also include the University's oil and gas interests and real property. Oil and gas interests are valued by discounting future expected royalty revenues, while real property is valued based on a number of different approaches, including third party appraisals, market comparables, tax assessor values, and discounted future rental revenues.

The methods described above may produce a fair value that may not be indicative of net realizable value or reflective of future values. In addition, while the University believes that its valuation methods are appropriate and consistent with those used by other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in different estimates of fair value at the reporting date.

The following table sets forth a reconciliation of beginning and ending balances, separately for each major category of assets, for financial instruments designated as Level 3 (*in thousands)*:

	Beginning Balance	Realized Gains (Losses)	Unrealized Gains (Losses)	Purchases	Sales	Net Transfers	Ending Balance
Alternative investments							
Hedge funds: Absolute return	$ 79,151	$ -	$ (2,136)	$ -	$ -		$ 77,015
Private equity/venture capital	28,904	1,581	(1,077)	4,314	(3,161)		30,561
Natural resources	8,961	408	(343)	2,015	(1,069)		9,972
Real estate	1,267		17	100	(100)		1,284
Distressed debt	822		83	3,400			4,305
Real property	2,259		(359)				1,900
Oil & Gas interests	2,134						2,134
Total assets	$ 123,498	$ 1,989	$ (3,815)	$ 9,829	$ (4,330)	$ -	$ 127,171

Transfers in and out of Level 3 are recognized at the end of the fiscal year. Funds are transferred from Level 3 to Level 2 when it is determined that pricing inputs are determinable and liquidity terms are under 90 days. No significant transfers between levels have occurred in the fiscal year ended May 31, 2012

The amount included in the Statement of Activities and Changes in Net Assets for the period which is attributable to the change in unrealized gains and losses related to assets still held at the reporting date is $(3,815,000). That entire amount is recorded in Non-operating investment returns.

The University uses the NAV to determine the fair value of all the underlying investments which (a) may not have a readily determinable fair value and (b) prepare financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company. The following table lists investments in other investment companies (in limited partnership or trust format) by major category (*in thousands*):

	Strategy	NAV in Funds	# of Funds	Remaining Life *(in years)*	Unfunded Commitments	Redemption Terms and Restrictions
Commingled Funds	Global, long only equities and bonds in LP/Trust format	$102,714	6	NA	NA	Ranges from daily to monthly redemptions with 1 to 30 days notice.
Hedge Funds	Absolute return employing long/short, convertible arbitrage, event driven, distressed strategies	77,015	3	NA	NA	Ranges from quarterly to annual redemptions with 65 to 100 days notice. Up to 10% holdback on full redemptions. One fund has 20% gate at pool level.
Private Equity	Venture and buyout in U.S. and International	30,561	12	0 to 11	$20,624	No ability to redeem due to structure.
Natural Resources	Diversified inflation hedge strategy including public and private natural resource equities, TIPS, commodities	31,281	5	0 to 8	4,654	Two funds have daily to monthly redemptions with 1 to 7 days notice; other three offer no ability to redeem.
Real Estate	Private real estate equity	1,284	1	1 to 2	340	One fund offers no ability to redeem.
Distressed Debt	Opportunistic including distressed bonds and bank debt	4,305	2	10 to 12	5,850	No ability to redeem due to structure.

10. Net Assets

Temporarily restricted net assets for annuity trust agreements, buildings and equipment, and for scholarship and academic support represent funds previously collected but not yet expended or released from their restrictions.

Temporarily restricted net assets at May 31, 2012 are available for the following purposes (*in thousands*):

Buildings and equipment	$ 4,722
Endowment	46,376
Pledges	11,649
Annuity trust agreements	26,363
	$ 89,110

Permanently restricted net assets consist of the following at May 31, 2012 (*in thousands)*:

Investment in perpetuity, the income from which is expendable to support educational activity	$	123,643
Donor-restricted loan funds		29,754
Permanently restricted pledges		11,798
	$	165,195

The University had the following endowment activities during the year ended May 31, 2012 delineated by net asset class and donor-restricted versus Board-designated funds.

Endowment net asset composition by type of fund as of May 31, 2012 is as follows (*in thousands*):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 46,376	$ 135,441	$ 181,817
Board-designated endowment funds	227,311	-	-	227,311
Total endowment funds	$ 227,311	$ 46,376	$ 135,441	$ 409,128

Changes in endowment net assets for the year ended May 31, 2012 are as follows (*in thousands*):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 240,864	$ 63,493	$ 130,812	$ 435,169
Total Investment (losses)	(9,302)	(11,278)	-	(20,580)
Contributions	67	-	3,799	3,866
Appropriation of Endowment for Expenditure	(3,920)	(6,114)	-	(10,034)
Transfer of assets from life estates to endowment assets	-	-	707	707
Donor redesignation	(398)	275	123	-
Endowment net assets, end of year	$ 227,311	$ 46,376	$ 135,441	$ 409,128

The portions of endowment funds that are required to be retained permanently and/or temporarily either by explicit donor stipulation or by UPMIFA as enacted by the State of California are as follows (*in thousands*):

Temporarily Restricted Net Assets

Scholarship support	$ 17,010
Chair support	15,124
Program support	9,913
Awards	2,058
Plant	1,303
Total before underwater endowment funds	45,408
Underwater endowment funds	968
Total temporarily restricted net assets	$ 46,376

Permanently Restricted Net Assets

Scholarship support	$ 68,647
Chair support	38,114
Program support	22,938
Awards	4,436
Plant	1,306
Total permanently restricted net assets	$ 135,441

11. Scholarships

Scholarships, reported in the Statement of Activities and Changes in Net Assets as a reduction of tuition and fees, were funded in fiscal year 2012 from the following revenue sources (*in thousands*):

University tuition and fees	$ 69,977
Endowment distribution	4,722
Donor contributions for current use	3,193
Government grants	1,083
Total scholarships	$ 78,975

12. Related Parties

Members of the Society of Jesus, the Religious of the Sacred Heart of Mary, and the Sisters of St. Joseph of Orange constitute approximately 2% of the University's full and part-time faculty and administrative staff. During the year ended May 31, 2012, the University paid these religious communities approximately $3,085,000 for their services. This compensation is included in Instruction, Research, Institutional support and Student services expenses in the Statement of Activities and Changes in Net Assets. Some members of these communities live in housing provided by the University for a nominal rent. In addition, the University has approximately $6,058,000 of endowment funds invested in mutual funds that are managed by an investment management company in which one of the University's Trustees has significant influence. This investment was fully disclosed to, and approved by, the full Board of Trustees.

13. Commitments and Contingencies

Amounts are received and expended by the University under federal contracts and are subject to audit by governmental agencies. These awards are subject to audit and final acceptance by federal granting agencies. The amount of expenditures that may be disallowed by the grantors, if any, cannot be determined at this time, although the University expects such amounts, if any, to be immaterial.

The University is committed under certain construction contracts in the amount of $10,276,000 as of May 31, 2012.

At May 31, 2012, the University has open commitments to invest approximately $31,467,000 with alternative investment managers.

The University's workers' compensation carrier requires that the University maintain an unsecured letter of credit for claims that fall below the deductible amount. At May 31, 2012, the amount of the letter of credit facility was $2,050,000. The letter of credit was not used during the year ended May 31, 2012, and therefore no liability was recorded in the Statement of Financial Position.

The University is a defendant in various legal actions incident to the conduct of its operations. The University's management does not expect that liabilities, if any, related to these legal actions would have a material effect on the University's financial position at May 31, 2012.

14. Subsequent Events

On June 1, 2012, the University entered into an agreement with its primary bank for a $20,000,000 revolving line of credit to provide an additional resource for working capital needs. The line is uncollateralized and is available to the University until May 30, 2013. The University incurs a commitment fee on unused balances and interest on borrowed balances, payable quarterly and monthly, respectively.

Management has evaluated subsequent events through October 1, 2012, the date the financial statements were issued. Other than the transaction described in the preceding paragraph, there are no other events that require adjustment or additional disclosure in these financial statements.