Loyola Marymount University

Financial Statements

May 31, 2016

(With Summarized Financial Information as of and for the Year Ended May 31, 2015)

Loyola Marymount University
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Report of Independent Auditors

To the Board of Trustees of
Loyola Marymount University

We have audited the accompanying financial statements of Loyola Marymount University (the “University”), which comprise the statement of financial position as of May 31, 2016 and the related statements of activities and changes in net assets, and cash flows for the year then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the University's preparation and fair presentation of the financial statements in order to design 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Loyola Marymount University at May 31, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

We previously audited the University's statement of financial position as of May 31, 2015, and the related statements of activities and changes in net assets and of cash flows for the year then ended (not presented herein), and in our report dated October 5, 2015, we expressed an unmodified opinion on those financial statements. In our opinion, the information set forth in the accompanying summarized financial information as of May 31, 2015 and for the year then ended is consistent, in all material respects, with the audited financial statements from which it has been derived.

PricewaterhouseCoopers LLP

October 3, 2016

Loyola Marymount University
Statement of Financial Position
May 31, 2016
(With Summarized Financial Information as of May 31, 2015)

(in thousands)

	2016	2015
Assets		
Cash and cash equivalents	$ 29,807	$ 35,970
Accounts receivable		
Tuition & fees, less allowance for doubtful accounts of $1,150 in 2016 and $1,045 in 2015	3,270	3,934
Other	18,990	14,075
Pledges receivable, net	18,883	21,790
Notes receivable, less allowance for doubtful accounts of $1,943 in 2016 and $1,987 in 2015	39,630	40,362
Investments	459,637	488,340
Prepaid expenses, deferred charges and other assets	8,510	10,037
Assets whose use is limited by bond indentures	1,010	6,495
Plant properties, net	641,665	624,772
Total assets	$ 1,221,402	$ 1,245,775
Liabilities and net assets		
Liabilities		
Accrued payroll expense	$ 12,129	$ 10,864
Accounts payable and accrued expenses	40,459	42,410
Accrued interest expense	48,026	45,705
Deferred revenue and deposits	20,769	16,049
Debt outstanding, net of unamortized premium of $855 in 2016 and $1,132 in 2015	167,584	175,380
Loan funds returnable to donor	1,264	1,302
U.S. government grants refundable	10,531	10,702
Annuity liabilities and assets held for others	2,719	2,114
Total liabilities	303,481	304,526
Commitments and contingencies (Note 13)		
Net assets		
Unrestricted	610,991	602,132
Temporarily restricted	108,004	151,956
Permanently restricted	198,926	187,161
Total net assets	917,921	941,249
Total liabilities and net assets	$ 1,221,402	$ 1,245,775

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, 2016
(With Summarized Financial Information for the Year Ended May 31, 2015)

(in thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2016 Total	2015 Total
Revenues, gains and other additions					
Tuition and fees	$ 356,817	$ -	$ -	$ 356,817	$ 348,346
Scholarships	(100,331)			(100,331)	(95,849)
Net tuition and fees	256,486	-	-	256,486	252,497
Investment returns designated for operations	16,426	9,832		26,258	21,439
Contributions and pledges	7,754	3,578		11,332	17,165
Grants	9,209			9,209	7,424
Auxiliary enterprise revenue	44,217			44,217	42,602
Other revenue	8,995			8,995	8,759
Net assets released from restrictions	11,366	(11,366)		-	-
Total operating revenues, gains, and other changes	354,453	2,044	-	356,497	349,886
Expenses					
Instruction	140,814			140,814	134,961
Research	6,858			6,858	5,839
Academic support	35,761			35,761	33,723
Library	14,329			14,329	13,698
Student services	61,662			61,662	59,482
Institutional support	56,839			56,839	57,217
Auxiliary enterprises	33,698			33,698	29,777
Total operating expenses	349,961	-	-	349,961	334,697
Increase in operating net assets	4,492	2,044	-	6,536	15,189
Non-operating revenues and expenses					
Contributions for non-operating purposes	6	445	9,402	9,853	8,831
Contributions for acquisition of capital assets	1,534	916		2,450	2,512
Investment returns after amounts designated for current operations	(30,854)	(10,029)	424	(40,459)	(8,151)
Net realized and unrealized (losses) gains on interest rate swap	(1,458)			(1,458)	(1,852)
Other non-operating (expenses) income	(250)			(250)	571
Net assets released from restrictions	35,594	(35,594)		-	-
Donor redesignations	(205)	(1,734)	1,939	-	-
Non-operating revenues (expenses), net	4,367	(45,996)	11,765	(29,864)	1,911
Increase (decrease) in net assets	8,859	(43,952)	11,765	(23,328)	17,100
Net assets					
Beginning of year	602,132	151,956	187,161	941,249	924,149
End of year	$ 610,991	$ 108,004	$ 198,926	$ 917,921	$ 941,249

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

Loyola Marymount University
Statement of Cash Flows
Year Ended May 31, 2016
(With Summarized Financial Information for the Year Ended May 31, 2015)

(in thousands)

	2016	2015
Cash flows from operating activities		
(Decrease)/Increase in net assets	$ (23,328)	$ 17,100
Adjustments to reconcile increase in		
net assets to net cash provided by operating activities		
Depreciation and amortization	26,836	24,597
Net unrealized and realized loss on interest rate swap agreement	464	792
Realized and unrealized loss / (gain) on investments	18,719	(8,544)
Loan receivable forgiveness	2,064	2,323
Provisions for (recovery of) doubtful notes receivable	(44)	229
Non-cash contributions received	(1,747)	(2,161)
Contributions to be used for fixed assets	(2,391)	(2,501)
Contributions to be used for long-term investment	7,815	(21,567)
Proceeds from sale of donated securities	966	1,157
Actuarial change in trust liability	925	382
Changes in assets and liabilities:		
Tuition and fees receivable from students, net	664	868
Accounts receivable, other	(5,207)	497
Pledges receivable, net	990	(4,341)
Prepaid expenses, deferred charges and other assets	1,340	(784)
Accounts payable and accrued expenses	3,595	5,108
Deferred revenue and deposits	4,720	90
Annuity liabilities and assets held for others	(5)	6
Net cash provided by operating activities	36,376	13,251
Cash flows from investing activities		
Purchases of plant properties	(45,777)	(73,901)
Purchases of investments	(64,756)	(157,527)
Proceeds from sales and maturities of investments	55,697	196,578
Disbursements of loans to students and faculty	(5,953)	(8,655)
Repayments of loans by students and faculty	4,666	4,943
Net cash used in investing activities	(56,123)	(38,562)
Cash flows from financing activities		
Issuance of CEFA Bond Payable	30,025	-
Repayment of CEFA bonds payable	(38,008)	(7,964)
Repayment of U.S. government grants refundable	(171)	(118)
Contributions to be used for fixed assets	3,570	18,340
Contributions to be used for long-term investment	11,942	8,546
Reimbursement from CEFA 2013A	5,485	8,054
Contributions restricted for annuity agreements	1,056	156
Payments made under split-interest agreements	(315)	(244)
Net cash provided by financing activities	13,584	26,770
Net (decrease)/increase in cash and cash equivalents	(6,163)	1,459
Cash and cash equivalents		
Beginning of year	35,970	34,511
End of year	$ 29,807	$ 35,970
Supplementary cash flow information		
Non-cash acquisition of plant	$ 1,721	$ 3,681
Securities received as gifts	1,747	2,161
Interest paid	4,033	3,404

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 (“GAAP”).

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 as the contribution is received; 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 and notes 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 GAAP. Accordingly, such information should be read in conjunction with the University’s financial statements for the year ended May 31, 2015 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 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 includes primarily receivables from insurance policies and charitable remainder trusts where the University is named a beneficiary but is not the trustee. As of May 31, 2016 and 2015, the balances of these beneficial interests are $6,113,000 and $7,124,000, respectively. Present value of the estimated future cash flows from the trusts approximates the fair 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 in the period received. Pledge contributions are classified as temporarily restricted or permanently restricted based on time restrictions and/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. Due to the nature and terms of the student loans, it is not feasible to determine the fair value of such loans. 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 and securities 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 fair value of the Endowment Fund assets at May 31, 2016 and 2015 was $418,856,000 and $448,480,000, respectively.

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 fees and inflation, over the long-term (rolling ten-year period). 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 utilizes the "Yale 70/30" spending calculation methodology to determine the annual amount of investment returns distributed to University operations ("spending policy"). Under this methodology, 70% of the calculation is based on a 3% growth rate applied to the prior year's distribution, and 30% is based on a 5% rate applied to a rolling 12 quarter average pool fair market value. This methodology is intended to produce increasing yet smooth and predictable endowment distributions year over year.

For the year ended May 31, 2016, the gross endowment pool distribution under the spending policy was $20,770,000, with an additional Board-approved special distribution for Law School scholarships of $6,200,000 for a total distribution of $26,970,000. Included in investment returns designated for operations is a portion of the endowment distribution designated for operations of $25,694,000 and other non-endowment investment returns of $564,000. The remaining endowment distribution of $1,276,000 is recorded in Investment returns after amounts designated for current operations in the Statement of Activities and Changes in Net Assets. Returns remaining after the annual distribution are reinvested in the endowment pool as Board-designated or temporarily restricted endowment funds.

For the year ended May 31, 2015, the gross endowment pool distribution under the spending policy was $19,911,000, with an additional Board-approved special distribution for Law School scholarships of $2,000,000 for a total distribution of $21,911,000. Included in investment returns designated for operations is a portion of the endowment distribution designated for operations of $20,682,000 and other non-endowment investment returns of $757,000. The remaining endowment distribution of $1,229,000 is recorded in Investment returns after amounts designated for current operations in the Statement of Activities and Changes in Net Assets. Returns remaining after the annual distribution are reinvested in the endowment pool as Board-designated or temporarily restricted endowment funds.

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". The University 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.

Assets Whose Use is Limited by Bond Indentures

As of May 31, 2016 and 2015 the University had unspent bond proceeds related to the Series 2013A Bonds. These proceeds are designated for acquisition of plant. These funds are held at U.S. Bank, the Bond Trustee.

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	5-12 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 years 2016 and 2015 was $26,924,000 and $24,769,000, respectively.

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 obligation 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, 2016 and 2015, $933,000 and $981,000, respectively, 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 and reputable fund managers. Management regularly reviews its investment policies, asset allocations and individual manager portfolios with the University's external investment consultant, as well as 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, 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 – 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 made and met within the same reporting period, are reported as unrestricted support.

  Pledges are recorded as receivables and revenues in the year received. Pledges on which payments are receivable in future periods are reported as either temporarily restricted or permanently restricted based on donor intent. 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 conferences, dining facilities, student housing, parking operations, 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 primarily generated from athletic activities, lab fees and rebates from significant vendor contracts. 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 Integrated Postsecondary Education Data System ("IPEDS"). Each functional classification includes direct expenses, 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 years ended May 31, 2016 and 2015, is approximately $9,903,000 and $10,204,000 respectively of direct expenses related to fundraising.

Non-Operating Revenues and Expenses

Non-operating revenues 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.

Revision

The statement of cash flows for the year ended May 31, 2015 was revised by management to correctly reflect the net unrealized and realized loss on the interest rate swap agreement as an operating cash flow activity rather than as a financing activity. Management has concluded the change was not material to the 2015 cash flow statement. This revision had no effect on the total change in cash and cash equivalents for the year ended May 31, 2015.

New Accounting Pronouncements

In May 2014, the FASB issued a standard on *Revenue from Contracts with Customers*. This standard implements a single framework for recognition of all revenue earned from customers. This framework ensures that entities appropriately reflect the consideration to which they expect to be entitled in exchange for goods and services by allocating the transaction price to identified performance obligations and recognizing revenue as performance obligations are satisfied. Qualitative and quantitative disclosures are required to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The standard is effective for fiscal years beginning after December 15, 2017. Management is evaluating the impact this will have on the University's future financial statements.

In April 2015, the FASB issued a standard on *Simplifying the Presentation of Debt Issuance Costs*. This standard requires all costs incurred to issue debt to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability. The standard is effective for fiscal years beginning after December 15, 2016 with early adoption permitted. Management is evaluating the impact this will have on the University's future financial statements.

In May 2015, the FASB issued a standard about *Fair Value Measurement and Disclosures for Investments* in certain entities that calculate net asset value per share (or its equivalent). This guidance removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient and removes the requirement to make certain disclosures for these investments. The guidance is effective for fiscal years beginning after December 15, 2016 with early adoption permitted. Management has chosen to early adopt the guidance effective for the University's May 31, 2016 financial statements.

In January 2016 the FASB issued a standard about the *Recognition and Measurement of Financial Assets and Financial Liabilities*. This guidance affects all entities that hold financial assets or owe financial liabilities and primarily affects the accounting for equity investments, financial liabilities under the fair value option, and presentation and disclosure requirements for financial instruments. The guidance is effective for non-public entities for annual periods beginning after December 15, 2018 with early adoption permitted and requires retrospective application to all periods presented. Management has chosen to early adopt the guidance permitting the elimination of fair value disclosures for financial instruments measured at cost or amortized cost for the University's May 31, 2016 financial statements.

In February 2016 the FASB issued a standard about *Leases*. This guidance requires the recognition of rights and obligations arising from lease contracts, including existing and new arrangements, as assets and liabilities on the balance sheet. The guidance is effective for annual reporting periods beginning after December 15, 2018. Management is currently evaluating the impact this will have on the University's future financial statements.

In August 2016 the FASB issued a standard about the *Presentation of Financial Statements for Not-for-Profit-Entities*. This guidance revises the not-for-profit reporting model. The guidance streamlines and clarifies net asset reporting, provides flexibility regarding the definition of reported operating subtotals, and imposes new reporting requirements related to expenses. The guidance is effective for fiscal years beginning after December 15, 2017. Management is currently evaluating the impact this will have on the University's future financial statements.

2. Pledges Receivable

Pledges are received as part of the University's fundraising activities 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, outstanding pledges are reflected in the financial statements and are summarized below:

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

	2016	2015
In one year or less	$ 9,556	$ 12,702
Between one and five years	9,951	14,791
Over five years	106	165
Total pledges receivable	19,613	27,658
Less: Allowance for uncollectible pledges	-	(4,770)
Discount to present value	(730)	(1,098)
Total pledges receivable, net	$ 18,883	$ 21,790

Pledges receivable at May 31, 2016 have the following designations (*in thousands)*:

		Pledge Receivable Balance		Allowance		Discount		Pledge Receivable Balance, Net
Endowment for academic programs and activities	$	535	$	-	$	-	$	535
Endowment for scholarships		7,674				(384)		7,290
Plant properties		3,168				(100)		3,068
Departmental programs and activities		8,236				(246)		7,990
Total pledges receivable	$	19,613	$	-	$	(730)	$	18,883

Pledges receivable at May 31, 2015 have the following designations (*in thousands)*:

		Pledge Receivable Balance		Allowance		Discount		Pledge Receivable Balance, Net
Endowment for academic programs and activities	$	5,888	$	(4,569)	$	(10)	$	1,309
Endowment for scholarships		7,944		(201)		(468)		7,275
Plant properties		4,382				(192)		4,190
Departmental programs and activities		9,444				(428)		9,016
Total pledges receivable	$	27,658	$	(4,770)	$	(1,098)	$	21,790

3. Notes Receivable

Student Loans

The University makes uncollateralized loans to students based on financial need. Student loans are funded through the Federal Perkins Loan Program, Weingart Foundation Loan Program, and institutional resources. At both May 31, 2016 and 2015, net student loans represented approximately 2% of total assets.

At May 31, 2016, student loans and the related allowance for doubtful accounts consist of the following (*in thousands*):

		Student Receivable Balance		Related Allowance		Student Receivable Balance, net
Perkins	$	12,459	$	(646)	$	11,813
Weingart		12,844		(974)		11,870
Institutional		3,480		(323)		3,157
Total	$	28,783	$	(1,943)	$	26,840

At May 31, 2015, student loans and the related allowance for doubtful accounts consist of the following (*in thousands*):

	Student Receivable Balance	Related Allowance	Student Receivable Balance, net
Perkins	$ 13,217	$ (751)	$ 12,466
Weingart	12,010	(920)	11,090
Institutional	3,387	(316)	3,071
Total	$ 28,614	$ (1,987)	$ 26,627

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 years ended May 31 were as follows (*in thousands*):

	2016 Student Loan Allowance	2015 Student Loan Allowance
Beginning Balance - June 1	$ (1,987)	$ (1,758)
Change in estimated reserve requirement	(117)	(360)
Net charge-offs	232	216
Recoveries	(71)	(85)
Ending Balance - May 31	$ (1,943)	$ (1,987)

At May 31, 2016, 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	$ 10,658	$ 374	$ 90	$ 16	$ 1,321	$ 12,459
Weingart	11,373	343	34	49	1,045	12,844
Institutional	3,054	61	-	2	363	3,480
						$ 28,783

At May 31, 2015, 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	$ 11,210	$ 315	$ 96	$ 5	$ 1,591	$ 13,217
Weingart	10,992	308	16	26	668	12,010
Institutional	2,909	117	-	-	361	3,387
						$ 28,614

Faculty and Staff Loans
As part of a program to attract and retain excellent faculty, the University provides home mortgage financing assistance. Mortgage notes receivable amounting to $12,703,000 and $13,625,000 were outstanding at May 31, 2016 and 2015, respectively, and are collateralized by deeds of trust on properties concentrated in the region surrounding the University. Mortgage loans are granted up to $150,000, interest free per eligible faculty member. The loan amounts are forgiven over a 10-year period, following one-year participation in the program, as long as the faculty member 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 $87,000 and $110,000 were outstanding at May 31, 2016 and 2015, respectively, related to employee computer loans. No allowance for doubtful accounts has been recorded against faculty and staff loans based on collection histories.

The faculty and staff loan amount represents approximately 1% of total assets at May 31, 2016 and 2015, respectively. There were no amounts past due under either programs.

4. Investments

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

	2016	2015
Investment cash & equivalents	$ 17,066	$ 34,225
Corporate bonds	9,114	10,469
Government bonds	3,305	3,560
Common stock	12,847	776
Mutual funds	123,791	137,854
Commingled funds	138,671	135,873
Alternative investment funds:		
Private equity/Venture capital	35,409	37,695
Hedge funds	98,378	105,505
Natural resources	8,481	8,822
Real estate	3,072	1,142
Distressed	7,095	9,665
Real property and other	2,408	2,754
	$ 459,637	$ 488,340

The investment goal of the University is to maintain or grow its investments in order to increase financial support to operations and 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 realized and unrealized gains and losses in the Statement of Activities and Changes in Net Assets.

Approximately 66% of the University’s investments at May 31, 2016 and 2015 are invested (directly or indirectly) in money market funds, 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.

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 34% of the University’s investments as of May 31, 2016 and 2015 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 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, 2016 and 2015 is $361,000 and $412,000, respectively.

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

	2016	2015
Unrealized and realized (losses) / gains	$ (18,719)	$ 8,544
Interest income, dividends, royalties and rents	6,185	6,232
Management fees and other investment related expenses	(1,667)	(1,488)
Total net (losses) / gains on investments	(14,201)	13,288
Less: Investments designated for current operations	(26,258)	(21,439)
Investment returns after amounts designated for current operations	$ (40,459)	$ (8,151)

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 balances could fluctuate materially.

5. Plant Properties

Plant properties are as follows for the year ended May 31 (*in thousands*):

	2016	2015
Land	$ 52,083	$ 50,860
Buildings	549,386	444,848
Equipment	178,334	164,608
Library books	76,342	72,288
Computer software	26,111	22,540
Leasehold improvements	47,963	45,335
Building improvements	80,953	72,584
Construction-in-progress	3,035	97,327
Total cost	1,014,207	970,390
Less: Accumulated depreciation	372,542	345,618
Plant properties, net	$ 641,665	$ 624,772

Fully depreciated assets are $128,769,000 and $116,324,000 for the years ended May 31, 2016 and 2015 respectively.

6. Accounts Payable and Accrued Expenses

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

	2016	2015
Vendor accounts payable and accruals	$ 11,697	$ 15,968
Postretirement benefits liability	12,590	11,253
Accrued vacation expense	7,377	7,279
Workers' compensation self-insurance liabilities	7,862	6,929
Asset retirement obligations	933	981
	$ 40,459	$ 42,410

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 $13,194,000 and $12,607,000 during the years ended May 31, 2016 and 2015, respectively.

The University currently provides certain health care benefits for retired University employees. Employees become eligible for those benefits if they reach retirement age while employed by the University and are at least age 65 with 10 years of service. As of May 31, 2016 and 2015, a net postretirement benefit liability of $12,590,000 and $11,253,000, respectively, 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 cost, net of benefits paid, which is allocated among the functional expense classifications. The remaining 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 health benefit plan's unfunded status as of May 31 and amounts recognized in the Statement of Activities and Changes in Net Assets for the years ended May 31 (*in thousands*):

	2016	2015
Benefit obligation at beginning of year	$ 11,253	$ 10,562
Net periodic benefit costs	1,309	1,261
Benefits paid	(356)	(289)
Change in unrestricted net assets	384	(281)
Benefit obligation at end of year	$ 12,590	$ 11,253

The increase in accumulated postretirement benefit obligation for the year ended May 31, 2016 is attributable to incremental service and interest cost of $740,000 and $433,000 respectively, in addition to actuarial losses of $521,000 which were driven by changes in the mortality rate assumption, the discount rate, changes in health cost trends, and retirement rates.

The increase in accumulated postretirement benefit obligation for the year ended May 31, 2015 is attributable to incremental service and interest cost of $723,000 and $407,000 respectively, in addition to actuarial gains of $150,000 which were driven by changes in the mortality rate assumption, the discount rate, changes in health cost trends, and retirement rates.

The health care cost trend rate used to estimate the expected cost of benefits covered by the plan was 6.75% and 6.0% as of May 31, 2016 and 2015, respectively. The ultimate cost trend rate expected as of May 31, 2016 is 5.25% and it is expected to be reached in the year 2060.

The discount rates used to estimate the benefit obligation as of May 31, 2016 and 2015, respectively are 3.45% and 3.75%.

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

	2016	**2015**
Service cost	$ 740	$ 723
Interest cost	433	407
Amortization of prior service cost	46	46
Amortization of losses	90	85
Net periodic benefit cost	$ 1,309	$ 1,261

The discount rates used to determine the net periodic cost for the years ended May 31, 2016 and 2015, are 3.75% and 3.90%.

As of May 31, 2016, 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	$ 1,635	$ (1,370)
Effect on service and interest cost components	$ 201	$ (163)

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

Fiscal Year Ended May 31,	
2017	$ 558
2018	697
2019	779
2020	787
2021	821
2022-2025	4,622

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.

Total debt outstanding at May 31, 2016 is as follows (*in thousands*):

Series	Fiscal Year Maturity Dates	Type of Bond	Interest Rates		Principal Outstanding
2001A	2017 - 2040	Capital appreciation bonds	5.4%-5.83%	$	36,152
2010A	2017 - 2041	Revenue bonds	3.0%-5.13%		49,975
2011	2017 - 2025	Refunding revenue bonds	3.0%-5.13%		10,410
2013A	2017 - 2044	Revenue bonds	1.3%-4.73%		34,830
2015	2017 - 2021	Variable refunding revenue bonds	70% x LIBOR + 0.50%		29,000
		Total CEFA bond principal outstanding			160,367
		Plus: Total unamortized premium on CEFA borrowings			855
		Total amortized cost of CEFA bonds			161,222
		Plus: Fair market value of swap agreement			6,362
		Total long term debt outstanding		$	167,584

Total debt outstanding at May 31, 2015 is as follows (*in thousands*):

Series	Fiscal Year Maturity Dates	Type of Bond	Interest Rates		Principal Outstanding
2001A	2016 - 2040	Capital appreciation bonds	5.32% - 5.83%	$	38,165
2010A	2016 - 2041	Revenue bonds	3.00% - 5.13%		53,050
2010B	2016 - 2016	Variable refunding revenue bonds	SIFMA + 0.80%		30,025
2011	2016 - 2025	Refunding revenue bonds	3.00% - 5.13%		11,545
2013A	2016 - 2044	Revenue bonds	0.96% - 4.73%		35,565
		Total CEFA bond principal outstanding			168,350
		Plus: Total unamortized premium on CEFA borrowings			1,132
		Total amortized cost of CEFA bonds			169,482
		Plus: Fair market value of swap agreement			5,898
		Total long term debt outstanding		$	175,380

In June of 2015, the University refinanced $30,025,000 principal outstanding on the CEFA 2010B variable rate bonds due to an upcoming bullet maturity. These bonds were replaced with the CEFA 2015 variable refunding revenue bonds in the same principal amount. The CEFA 2015 bonds fully mature in fiscal 2021 with a final principal balance due of $24,475,000. Future principal payment requirements for the CEFA bonds are as follows (*in thousands*):

		CEFA
2017	$	7,941
2018		7,957
2019		7,927
2020		8,017
2021		31,348
Thereafter		97,177
	$	160,367

The first CEFA 2001A capital appreciation bond matured on October 1, 2014. The individual CEFA 2001A serial bonds will continue to mature each year with final maturity on October 1, 2039. At May 31, 2016 and 2015, the total outstanding liability for these bonds was $83,439,000 and $83,097,000, respectively, which includes principal and accrued interest.

Total interest expense on debt outstanding for fiscal year 2016 and 2015 was $8,829,000 and $7,931,000, respectively.

The CEFA agreements contain covenants relating to maintenance of University assets, 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.

At May 31, 2016 and 2015 the University held one derivative instrument in the form of an interest rate swap which serves to mitigate interest rate risk and 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 CEFA 2015 variable rate bond interest expense. In June of 2015, the University refinanced its CEFA 2010B variable rate bond with the CEFA 2015 variable rate bond. At that time, the swap became an interest rate hedge on the CEFA 2015 bonds as both vehicles maintain LIBOR-based rate structures and matching amortization schedules.

Under the terms of the agreement, the University pays a fixed rate of 3.575% on a declining notional amount which is $29,000,000 and $30,025,000 at May 31, 2016 and 2015, respectively. 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 University early adopted FASB Accounting Standards Update 2015-07, Fair Value Measurement (Topic 820): *Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)*. Under this guidance, investments measured at net asset value ("NAV"), as a practical expedient for fair value, are excluded from the fair value hierarchy.

The table below sets forth the University's assets and liabilities which are fair valued on a recurring basis with their associated categorization into Levels 1, 2 and 3 at May 31, 2016 (*in thousands*):

	Level 1	Level 2	Level 3	Total
Asset classification				
Investment cash and cash equivalents	$ 17,066	$ -	$ -	$ 17,066
Debt securities				
Corporate bonds		9,114		9,114
Government bonds		3,305		3,305
Equity securities				
Common stock	12,847			12,847
Mutual funds				
Equity	51,558			51,558
Fixed Income	44,291			44,291
Alternative	27,942			27,942
Real property			1,806	1,806
Oil & Gas interests			602	602
Investments measured at NAV				291,106
Total investments	153,704	12,419	2,408	459,637
Other assets: Split/beneficial interest			6,113	6,113
Total Assets	$ 153,704	$ 12,419	$ 8,521	$ 465,750
Derivative contracts: Interest rate swap	$ -	$ (6,362)	$ -	$ (6,362)
Total Liabilities	$ -	$ (6,362)	$ -	$ (6,362)

The table below sets forth the University's assets and liabilities which are fair valued on a recurring basis with their associated categorization into Levels 1, 2 and 3 at May 31, 2015 (*in thousands*):

	Level 1	Level 2	Level 3	Total
Asset classification				
Investment cash and cash equivalents	$ 34,225	$ -	$ -	$ 34,225
Debt securities				
Corporate bonds		10,469		10,469
Government bonds		3,560		3,560
Equity securities				
Common stock	776			776
Mutual funds				
Equity	57,281			57,281
Fixed Income	51,911			51,911
Alternative	28,662			28,662
Real property			1,806	1,806
Oil & Gas interests			948	948
Investments measured at NAV				298,702
Total investments	172,855	14,029	2,754	488,340
Other assets: Split/beneficial interest			7,124	7,124
Total Assets	$ 172,855	$ 14,029	$ 9,878	$ 495,464
Derivative contracts: Interest rate swap	$ -	$ (5,898)	$ -	$ (5,898)
Total Liabilities	$ -	$ (5,898)	$ -	$ (5,898)

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

Level 2: Includes the University's investments in debt securities. Debt security prices are obtained from pricing services, or from brokers.

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.

Level 3: Includes 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.

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 the University's interest in 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.

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 table below sets forth a reconciliation of beginning and ending balances for the fiscal year ended May 31, 2016, 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 / Maturities	Net Transfers	Ending Balance
Real property	$ 1,806	$ -	$ -	$ -	$ -	$ -	$ 1,806
Oil & Gas interests	948		(346)				602
Split/Beneficial Interest	7,124	1,029	(265)		(1,775)		6,113
Total assets	$ 9,878	$ 1,029	$ (611)	$ -	$ (1,775)	$ -	$ 8,521

The amount of unrealized gains and losses 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 $611,000.

Transfers in and out of Levels 1, 2, and 3 are recognized at the end of the fiscal year. Funds are transferred out of Level 3 when it is determined that pricing inputs are determinable and liquidity terms are under 90 days. The opposite is true when funds are transferred into Level 3.

Management revised the 2015 classification of the University's split/beneficial interests from Level 2 to Level 3 to more appropriately reflect the nature of the University's asset.

As of May 31, 2016, no transfers were recorded between Level 1, Level 2 and Level 3.

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 as of May 31, 2016 (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	$138,671	9	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	$98,378	15	NA	$2,412	Liquidity may be quarterly, annual, or rolling with various notice periods from 45 – 180 days. Certain funds include holdbacks, gates and/or side pockets.
Private Equity/Venture Capital	U.S. and International venture and buyout	$35,409	15	0 to 12	$20,632	No ability to redeem due to structure.
Natural Resources	Private natural resource and energy	$8,481	5	0 to 10	$7,689	No ability to redeem due to structure.
Real Estate	Private real estate equity	$3,072	4	0 to 11	$11,433	No ability to redeem due to structure.
Distressed Debt	Opportunistic including distressed bonds and bank debt	$7,095	3	5 to 11	$5,000	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 pledges and funds previously collected, but not yet expended or released from their restrictions.

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

	2016	2015
Buildings and equipment	$ 4,308	$ 37,948
Endowment	86,633	95,132
Pledges (Note 2)	11,058	13,205
Scholarship and program - split/beneficial interest	3,717	3,745
Undesignated - split/beneficial interest	2,288	1,926
	$ 108,004	$ 151,956

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

	2016	2015
Investment in perpetuity, the income from which is expendable to support educational activities	$ 158,956	$ 146,743
Donor-restricted loan funds	32,145	31,834
Permanently restricted pledges (Note 2)	7,825	8,584
	$ 198,926	$ 187,161

The fair value of the endowment is comprised of the following net asset composition by type of fund as of May 31, 2016, is as follows (*in thousands*):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 42,440	$ 159,212	$ 201,652
Board-designated endowment funds	217,204			217,204
Total endowment funds	$ 217,204	$ 42,440	$ 159,212	$ 418,856

The fair value of the endowment is comprised of the following net asset composition by type of fund as of May 31, 2015, is as follows (*in thousands*):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 59,965	$ 147,000	$ 206,965
Board-designated endowment funds	241,515			241,515
Total endowment funds	$ 241,515	$ 59,965	$ 147,000	$ 448,480

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2016	Total 2015
Endowment net assets, beginning of year	$ 241,515	$ 59,965	$ 147,000	$ 448,480	$ 458,000
Total Investment (loss) / gain	(3,931)	(10,309)		(14,240)	13,814
Contributions	83		12,298	12,381	9,758
Appropriation of endowment returns for expenditure	(19,899)	(7,071)		(26,970)	(21,911)
Expenses	(624)	(227)		(851)	(870)
Donor redesignation/transfers	60	82	(86)	56	(10,311)
Endowment net assets, end of year	$ 217,204	$ 42,440	$ 159,212	$ 418,856	$ 448,480

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 as of May 31 (*in thousands*):

Temporarily Restricted Net Assets

	2016	2015
Scholarship support	$ 19,060	$ 27,609
Chair & faculty support	15,923	21,647
Program support	7,050	9,938
Awards	361	590
Plant	46	181
Total temporarily restricted endowment net assets	$ 42,440	$ 59,965

Permanently Restricted Net Assets

	2016	2015
Scholarship support	$ 83,086	$ 73,737
Chair & faculty support	43,709	43,255
Program support	28,786	26,578
Awards	2,181	2,043
Plant	1,450	1,387
Total permanently restricted endowment net assets	$ 159,212	$ 147,000

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 years 2016 and 2015 from the following revenue sources as of May 31 (*in thousands*):

	2016	2015
University tuition and fees	$ 88,210	$ 84,562
Endowment distribution	6,645	6,244
Donor contributions for current use	4,630	4,210
Government grants	846	833
Total scholarships	$ 100,331	$ 95,849

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 years ended May 31, 2016 and 2015, the University paid these religious communities approximately $3,569,000 and $3,467,000, respectively, 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.

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 $1,423,000 as of May 31, 2016.

At May 31, 2016, the University has open commitments to invest approximately $47,167,000 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, 2016, the amount of the letter of credit facility was $2,450,000. The letter of credit was not used during the years ended May 31, 2016, and 2015 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, 2016.

14. Subsequent Events

Management has evaluated subsequent events through October 3, 2016, the date the financial statements were issued. There are no events that require adjustment or additional disclosure in these financial statements.