

***University of  
San Francisco***

*Financial Statements for the  
Years Ended May 31, 2007 and 2006, and  
Independent Auditors' Report*

## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of the  
University of San Francisco  
San Francisco, CA

We have audited the accompanying statements of financial position of the University of San Francisco ("the University") as of May 31, 2007 and 2006, and the related statements of activities and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such financial statements present fairly, in all material respects, the financial position of the University as of May 31, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 4 to the financial statements, the financial statements include investments valued at \$61,860,000 (15% of net assets) and \$40,847,000 (11% of net assets) as of May 31, 2007 and 2006, respectively, whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by fund managers, general partners or third party independent valuations.

*Deloitte + Touche LLP*

September 14, 2007

# UNIVERSITY OF SAN FRANCISCO

## STATEMENTS OF FINANCIAL POSITION AS OF MAY 31, 2007 AND 2006 (In thousands)

	2007	2006
<b>ASSETS</b>		
CASH AND CASH EQUIVALENTS	\$ 39,510	\$ 25,362
RECEIVABLES:		
Student accounts, net of allowance of \$242 in 2007 and \$213 in 2006	2,740	1,951
Contributions, net of allowance of \$612 in 2007 and \$687 in 2006	26,310	29,451
Student loans, net of allowance of \$757 in 2007 and \$156 in 2006	12,168	11,379
Other	6,664	7,379
INVESTMENTS	247,041	212,800
RESTRICTED INVESTMENTS	30,151	38,368
BENEFIT UNDER INTEREST RATE SWAP AGREEMENTS	1,305	3,606
PREPAID EXPENSES AND OTHER ASSETS	9,588	9,357
PROPERTY, PLANT, AND EQUIPMENT — Net	<u>273,359</u>	<u>263,949</u>
TOTAL	<u>\$ 648,836</u>	<u>\$ 603,602</u>
<b>LIABILITIES AND NET ASSETS</b>		
LIABILITIES:		
Accounts payable and accrued liabilities	\$ 25,200	\$ 22,915
Asset retirement obligations	2,410	2,412
Liability under split interest agreements	2,778	2,513
Deferred revenue	9,928	8,843
Federal student loan funds	9,614	9,649
Line of credit	185	234
Bonds payable	<u>179,620</u>	<u>180,880</u>
Total liabilities	<u>229,735</u>	<u>227,446</u>
NET ASSETS:		
Unrestricted	287,235	243,377
Temporarily restricted	25,379	30,934
Permanently restricted	<u>106,487</u>	<u>101,845</u>
Total net assets	<u>419,101</u>	<u>376,156</u>
TOTAL	<u>\$ 648,836</u>	<u>\$ 603,602</u>

See notes to financial statements.

# UNIVERSITY OF SAN FRANCISCO

## STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS FOR THE YEARS ENDED MAY 31, 2007 AND 2006

(In thousands)

	2007				2006			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>REVENUES AND OTHER SUPPORT:</b>								
Tuition and fees	\$204,636	\$ -	\$ -	\$204,636	\$187,974	\$ -	\$ -	\$187,974
Grants and contracts	10,092			10,092	8,589			8,589
Investment income	8,876	1	159	9,036	5,157	1	495	5,653
Contributions	7,015	3,852	3,576	14,443	7,086	9,292	9,959	26,337
Net realized and unrealized gains (losses) on investments	24,800	(104)	594	25,290	17,358	101	36	17,495
Change in actuarial value of split interest agreements		795	301	1,096		68	(84)	(16)
Change in value of interest rate swap agreements	(2,301)			(2,301)	5,483			5,483
Auxiliary revenue	26,893			26,893	24,884			24,884
Other	6,013			6,013	5,137			5,137
<b>Total revenues</b>	<b>286,024</b>	<b>4,544</b>	<b>4,630</b>	<b>295,198</b>	<b>261,668</b>	<b>9,462</b>	<b>10,406</b>	<b>281,536</b>
Net assets released from restrictions	10,099	(10,099)		-	8,168	(8,168)		-
<b>Total revenues and other support</b>	<b>296,123</b>	<b>(5,555)</b>	<b>4,630</b>	<b>295,198</b>	<b>269,836</b>	<b>1,294</b>	<b>10,406</b>	<b>281,536</b>
<b>EXPENSES — Program expenses:</b>								
Instruction	97,359			97,359	90,949			90,949
Research	1,113			1,113	1,670			1,670
Public service	1,219			1,219	1,395			1,395
Academic support	29,029			29,029	24,169			24,169
Student services	21,623			21,623	20,310			20,310
Institutional support	34,932			34,932	32,889			32,889
Scholarships and fellowships	43,056			43,056	39,928			39,928
Auxiliary enterprises	23,746			23,746	24,975			24,975
Other	176			176	228			228
<b>Total expenses</b>	<b>252,253</b>	<b>-</b>	<b>-</b>	<b>252,253</b>	<b>236,513</b>	<b>-</b>	<b>-</b>	<b>236,513</b>
<b>CHANGE IN DONOR STIPULATIONS</b>	<b>(12)</b>	<b>-</b>	<b>12</b>	<b>-</b>	<b>(399)</b>	<b>399</b>	<b>-</b>	<b>-</b>
<b>INCREASE (DECREASE) IN NET ASSETS BEFORE CHANGE IN ACCOUNTING PRINCIPLE</b>	<b>43,858</b>	<b>(5,555)</b>	<b>4,642</b>	<b>42,945</b>	<b>33,323</b>	<b>895</b>	<b>10,805</b>	<b>45,023</b>
<b>CUMULATIVE EFFECT ON PRIOR YEARS DUE TO CHANGE IN ACCOUNTING PRINCIPLE — Valuation of asset retirement obligations</b>					<b>(2,179)</b>			<b>(2,179)</b>
<b>NET ASSETS — Beginning of year</b>	<b>243,377</b>	<b>30,934</b>	<b>101,845</b>	<b>376,156</b>	<b>212,233</b>	<b>30,039</b>	<b>91,040</b>	<b>333,312</b>
<b>NET ASSETS — End of year</b>	<b>\$287,235</b>	<b>\$25,379</b>	<b>\$106,487</b>	<b>\$419,101</b>	<b>\$243,377</b>	<b>\$ 30,934</b>	<b>\$101,845</b>	<b>\$376,156</b>

See notes to financial statements.

# UNIVERSITY OF SAN FRANCISCO

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED MAY 31, 2007 AND 2006 (In thousands)

	2007	2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Increase in net assets before change in accounting principle	\$ 42,945	\$ 45,023
Adjustment to reconcile increase in net assets before change in accounting principle to net cash provided by (used in) operating activities:		
Depreciation	13,877	12,467
Accretion of asset retirement obligation liability	152	104
Provision for bad debt	1,067	233
Forgiveness of employee notes	48	89
Net realized and unrealized gains on investments	(25,290)	(17,495)
Change in actuarial value of split interest agreements	(1,361)	(420)
Change in value of interest rate swap agreements	2,301	(5,483)
Contributions restricted for investment in endowment and plant	(7,570)	(18,460)
Gifts in kind/equipment donations	(33)	(48)
Gifts of real estate and investments	(3,479)	(5,502)
Changes in:		
Student accounts receivable — net	(1,856)	(1,304)
Contributions receivable	3,141	(6,601)
Other receivables	1,040	(3,496)
Prepaid expenses and other assets	1,423	517
Accounts payable and accrued liabilities	317	(446)
Asset retirement obligations	(154)	
Liability under split interest agreements	265	436
Deferred revenue	1,085	(2,445)
Net cash provided by (used in) operating activities	<u>27,918</u>	<u>(2,831)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Acquisition of property, plant, and equipment	(21,286)	(30,567)
Proceeds from sales of investments	122,547	47,174
Purchases of investments	(118,441)	(81,006)
Issuance of student loans	(3,442)	(3,164)
Student loan repayments	2,653	6,535
Issuance of employee notes	(373)	(12)
Employee notes repayments		42
Net cash used in investing activities	<u>(18,342)</u>	<u>(60,998)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from line of credit	33,352	32,351
Payments on line of credit	(33,401)	(35,619)
Proceeds from issuance of bonds payable	56,900	50,910
Payments on bonds and notes payable	(58,160)	(3,260)
Debt issuance costs	(1,654)	(1,282)
Contributions restricted for investment in endowment and plant	7,570	18,460
Net change in federal student loan funds	(35)	141
Net cash provided by financing activities	<u>4,572</u>	<u>61,701</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>14,148</b>	<b>(2,128)</b>
<b>CASH AND CASH EQUIVALENTS — Beginning of year</b>	<b><u>25,362</u></b>	<b><u>27,490</u></b>
<b>CASH AND CASH EQUIVALENTS — End of year</b>	<b><u>\$ 39,510</u></b>	<b><u>\$ 25,362</u></b>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION — Interest paid</b>	<b><u>\$ 12,056</u></b>	<b><u>\$ 8,698</u></b>
<b>SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING ACTIVITIES:</b>		
Accrued additions to property, plant, and equipment	<u>\$ 1,968</u>	<u>\$ 1,528</u>
Cumulative effects on prior years due to change in accounting principle:		
Valuation of asset retirement obligation	<u>\$ -</u>	<u>\$ 2,179</u>
Addition to property related to asset retirement obligation	<u>\$ -</u>	<u>\$ 423</u>

See notes to financial statements.

# UNIVERSITY OF SAN FRANCISCO

## NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED MAY 31, 2007 AND 2006

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### 1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

**Organization** — The University of San Francisco (“the University”) was founded by the Society of Jesus in 1855. The University is committed to the highest standards of learning and scholarship in the American, Catholic, and Jesuit traditions. The University balances its primary commitment to the liberal arts and sciences with its dedication to educating for the professions.

**Basis of Accounting** — The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), which include the principles of not-for-profit accounting as defined by Financial Accounting Standards Board (FASB) Statement No. 116, *Accounting for Contributions Received and Contributions Made*, and FASB Statement No. 117, *Financial Statements of Not-for-Profit Organizations*. FASB Statement No. 116 requires that unconditional promises to give be recorded as receivables and revenues within the appropriate net asset category. FASB Statement No. 117 requires classification of net assets and its associated revenues, expenses, gains, and losses into three categories, based on the existence or absence of externally imposed restrictions. Accordingly, net assets of the University are classified and defined as follows:

**Unrestricted Net Assets** — Unrestricted net assets are not subject to donor-imposed stipulations and are available to support the University’s operating activities. Unrestricted net assets include temporarily restricted resources that become available for use by the University in accordance with the intentions of the donors. Unrestricted net assets may be designated for specific purposes by action of the Board of Trustees or by management.

**Temporarily Restricted Net Assets** — Temporarily restricted net assets are contributions whose use is limited by donor-imposed stipulations that will either expire with the passage of time or be fulfilled and removed by actions of the University pursuant to those stipulations.

**Permanently Restricted Net Assets** — Permanently restricted net assets result from contributions whose use is limited by donor-imposed stipulations that neither expire with the passage of time nor can be fulfilled or otherwise removed by actions of the University. The income from these investments is primarily available to support activities of the University as designated by the donor.

As a result of changes in donor stipulations, received in writing from donors, the University reclassified approximately \$12,000 from unrestricted to permanently restricted net assets in 2007 and \$399,000 from temporarily restricted to permanently restricted net assets in 2006.

**Cash and Cash Equivalents** — Cash and cash equivalents include cash on deposit and money market funds.

**Student Loans Receivable** — Student loans receivable are principally funded through various federal programs. The allowance for uncollectible loans as of May 31, 2007 and 2006, totaled approximately \$757,000 and \$156,000, respectively, of which approximately \$116,000 and \$125,000, respectively, related to federally funded programs.

The University acts as a lender for certain graduate student loans and holds the note until the loan is fully disbursed. Following full disbursement, the loans are sold to Bank of America at a contracted premium. The amount due from these loans as of May 31, 2007 and 2006, is \$132,000 and \$25,000, respectively, and is included in student loans receivable.

**Investments** — Investments represent a diversified portfolio of public and private equity securities, fixed-income securities, real estate, life income, annuity, and trust funds. Equity securities, including private equity and fixed-income securities, are carried at estimated fair value. The value of publicly traded securities is based upon quoted market prices. Investments received through gifts are recorded at estimated fair value on the date of donation.

Private equity securities and other investments are primarily comprised of investments in limited partnerships and include nonmarketable and restricted investment securities whose values have been estimated by management in the absence of readily determinable fair values. Management estimates are based on information provided by the fund managers or the general partners. Because of the inherent uncertainty of the valuation of nonmarketable and restricted investments, the estimated fair values of these investments may differ significantly from the values that would have been used had a ready market for the securities existed. These differences could be material.

Real estate investments are carried at their estimated fair value. The fair value is determined by third-party independent valuations.

**Assets Held in Charitable Remainder Trusts and Liability to Beneficiaries of Trust Agreements** — Assets held in charitable remainder trusts are recognized at estimated fair value when irrevocable trusts naming the University as a beneficiary are executed. Additionally, charitable remainder trusts which name the University as trustee are executed with a corresponding liability to beneficiaries of trust agreements. Such liability is calculated as the present value of the estimated future cash flows to be distributed to the income beneficiaries over their expected lives. The University has determined such liability using investment returns consistent with the composition of investment portfolios, single or joint life expectancies from the 90CM IRS mortality table, and an average discount rate of 5.20%.

As of May 31, 2007 and 2006, investments in marketable securities include \$3,113,000 and \$2,385,000, respectively, in assets held by the University, as trustee, on which investment income is paid to designated beneficiaries until death, at which time the assets may be used by the University as designated by the donor. Liabilities to such beneficiaries of \$1,501,000 and \$1,181,000 are included in liability under split interest agreements as of May 31, 2007 and 2006, respectively. Investments include \$8,663,000 and \$7,845,000 as of May 31, 2007 and 2006, respectively, where the University is not the trustee.

**Life Income, Annuity, and Trust Funds** — Life income, annuity, and trust funds represent unconditional promises to give assets to the University upon the death of the designated beneficiaries, some of whom receive income on the assets until death. Such funds are recorded by the University at the actuarially determined present value and the University has determined such liability using investment returns consistent with the composition of investment portfolios, single or joint life expectancies from the 90CM IRS mortality table, and an average discount rate of 4.49%.

As of May 31, 2007 and 2006, investments in marketable securities include \$2,498,000 and \$2,360,000, respectively, in assets held by the University, as trustee, on which investment income is paid to designated beneficiaries until death, at which time the assets may be used by the University as designated by the donor. Liabilities to such beneficiaries of \$1,278,000 and \$1,332,000 are included in liability under split interest agreements as of May 31, 2007 and 2006, respectively. Investments include \$2,095,000 and \$1,594,000 as of May 31, 2007 and 2006, respectively, where the University is not the trustee.

As of May 31, 2007 and 2006, investments include \$314,000 and \$410,000, respectively, in pooled income funds where the University is the trustee.

**Prepaid Expenses and Other Assets** — Prepaid expenses and other assets consist of prepaid rent, which is amortized over the lives of the respective leases, and bond issuance costs which are amortized on a basis which approximates the effective interest method. The unamortized bond issuance costs were \$4,054,000 and \$4,001,000 as of May 31, 2007 and 2006, respectively, and are included in prepaid expenses and other assets.

**Property, Plant, and Equipment** — Purchased assets are recorded at cost. Donated assets are recorded at estimated fair value or appraised value on the date of donation. The carrying value of all long-lived assets is evaluated periodically to determine whether adjustment to the useful life or to the undepreciated balance is warranted. Depreciation begins in the year following the year in which the asset is placed in service and is recorded on the straight-line basis using the following useful lives:

Buildings and improvement	10–50 years
Furniture and equipment	3–10 years
Library books and collections	50 years

**Deferred Revenue** — Deferred revenue is recorded for tuition and fees received in the current fiscal year that is applicable to subsequent years.

**Derivative Financial Instruments** — The University accounts for its derivative financial instruments in accordance with FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*. FASB Statement No. 133, as amended, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. All derivatives, whether designated in hedging relationships or not, are required to be reflected on the statements of financial position at estimated fair value.

**Contributions** — Contributions are recognized as revenue when they are received or unconditionally pledged. When a donor restriction on a contribution expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities and changes in net assets as net assets released from restrictions. Contributions for which restrictions are met in the same period in which the unconditional pledge is received are recorded as unrestricted revenue. Contributions of cash and other assets restricted to acquiring long-lived assets are recorded as unrestricted revenue or as release from restrictions when the capital expenditure is incurred. Contributions receivable are recorded at the present value of expected future cash flows, discounted using a risk-free interest rate. In-kind gifts, such as donated materials, supplies, or other nonfinancial assets, are recorded as assets and at fair value on the date of the gift. Conditional promises to give are not included as revenue until the conditions are substantially met.

**Scholarships and Fellowships** — Scholarships and fellowships granted are recorded as expenditures in the applicable school year.

**Functional Expense Allocations** — Depreciation, interest, plant operation, and maintenance expenses are allocated among program and supporting services based on allocation methods (including square footage) and estimates made by University management.

**Fair Value of Financial Instruments** — Financial instruments included in the University’s statements of financial position as of May 31, 2007 and 2006, include cash and cash equivalents, restricted cash, student accounts, contributions receivable, student loans and other receivables, investments in marketable securities, life income, annuity and trust funds, interest rate swap agreements, accounts payable and accrued liabilities, federal student loan funds, and bonds payable. For cash and cash equivalents, student accounts and other receivables, accounts payable and accrued liabilities, and bonds payable, the carrying amounts represent a reasonable estimate of the corresponding fair values. Investments in marketable securities, contributions receivable and life income, annuity, and trust funds are reflected in the accompanying statements of financial position at their estimated fair values using methodologies described above. The fair value of bonds payable and interest rate swap agreements (see Note 6) is determined based on the University’s discounted cash flow analysis and comparison with similar financial instruments in the marketplace having similar interest rate and maturity structures. Given the significant restrictions and varying interest rates and repayment terms on student loans receivable and federal student loan funds, it is not practicable to estimate the fair value of such amounts.

**Tax-Exempt Status** — The University is a nonprofit corporation that qualifies under the provisions of Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes on related activities.

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

**Reclassifications** — Certain reclassifications have been made to the 2006 financial statements to conform to the 2007 financial statement presentation. In 2007, management changed its accounting policy for the classification of short-term investments within the investment portfolio. Accordingly, \$3,260,000 has been reclassified from short-term investments to cash and cash equivalents in 2006 to conform to the 2007 financial statement presentation. In 2007, management also changed the primary restriction where multiple donor restrictions are present for a number of net assets released from donor restrictions. Accordingly, in Note 7, \$736,000 has been reclassified from scholarship, departmental, and other programs to time restrictions expired in 2006 to conform to the 2007 financial statement presentation.

**New Accounting Pronouncements** — In June 2006, the Emerging Issues Task Force (EITF) issued EITF Issue No. 06-2, *Accounting for Sabbatical Leave and Other Similar Benefits Pursuant to FASB Statement No. 43, Accounting for Compensated Absences*. Issue 06-2 addresses whether an employer should accrue a liability for an employee’s right to a compensated absence under a sabbatical or other similar benefit arrangement that (a) requires the completion of a minimum service period and (b) does not increase with additional years of service. The guidance in EITF Issue No. 06-2 Paragraph 6 of Statement 43 states that a future obligation should be accrued as a liability if the “obligation relates to rights that vest or accumulate.” Under this standard, the University must accrue a future obligation as a liability as the employee’s right accumulates, and therefore the compensation cost associated with a sabbatical or other similar benefit arrangement should be accrued over the required service period.

Adoption of EITF Issue No. 06-2 is effective for fiscal years beginning after December 15, 2006. At this time, the University is evaluating the implications of EITF Issue No. 06-2 and its impact on the financial statements has not yet been determined.

In July 2006, the FASB released FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement 109* (FIN 48). FIN 48 provides guidance for how uncertain tax positions should be recognized, measured, presented and disclosed in the financial statements. FIN 48 requires the evaluation of tax positions taken in the course of preparing the University's tax returns to determine whether tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. Tax benefits of positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax expense in the current year. Adoption of FIN 48 is required for fiscal years beginning after December 15, 2006, and is to be applied to all open tax years as of the effective date. At this time, the University is evaluating the implications of FIN 48 and its impact on the financial statements has not yet been determined.

In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements*. This Statement establishes a single authoritative definition of fair value, sets out a framework for measuring fair value and requires additional disclosures about fair value measurements. FASB Statement No. 157 applies to fair value measurements already required or permitted by existing standards. FASB Statement No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The changes to current generally accepted accounting principles from the application of this Statement relate to the definition of fair value, the methods used to measure fair value, and the expanded disclosures about fair value measurements. At this time, the University is currently evaluating the implications of FASB Statement No. 157, and its impact on the financial statements has not yet been determined.

In February 2007, the FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Liabilities*. This Statement permits entities to choose to measure many financial instruments and certain other items at fair value. If the fair value option is elected, unrealized gains and losses will be recognized in the statement of activities for each subsequent reporting date. FASB Statement No. 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007. At this time, the University is currently evaluating the implications of FASB Statement No. 159, and its impact on the financial statements has not yet been determined.

## **2. CHANGE IN ACCOUNTING PRINCIPLE**

***Valuation of Asset Retirement Obligations*** — In March 2005, the FASB issued FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations* (FIN 47), an interpretation of FASB Statement No. 143, *Asset Retirement Obligations*. FIN 47 provides clarification of the term "conditional asset retirement obligation" as used in FASB Statement No. 143, defined as a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the University. Under this standard, the University must record a liability for a conditional asset retirement obligation if the fair value of the obligation can be reasonably estimated. Costs incurred to perform asset retirement activities are charged against the liability and period increases to the liability (accretion expense) are treated in the same manner as depreciation expense. The University adopted FIN 47 effective June 1, 2005.

Certain assets of the University contain asbestos. Although the asbestos is properly contained, in accordance with current environmental regulations, the University's practice is to remediate asbestos whenever substantial renovations to the University assets occur. The University determined that certain assets recorded within property, plant, and equipment meet the criteria for recording a liability under FIN 47, and recorded an increase to buildings and improvements of \$423,000, accumulated depreciation of \$294,000, an asset retirement obligation of \$423,000, and accumulated accretion of \$1,885,000 as of June 1, 2005. The cumulative effect on unrestricted net assets of adopting FIN 47 as of June 1, 2005, was \$2,179,000 and is disclosed separately on the statements of activities and changes in net assets.

As of May 31, 2007 and 2006, the University incurred accretion expense of \$152,000 and \$104,000, respectively, and settled obligations of \$154,000 and \$0, respectively. As of May 31, 2007 and 2006, the asset retirement obligation liability was \$2,410,000 and \$2,412,000, respectively. The effect of the change in accounting principle on net assets for the year ended May 31, 2006, was a decrease of \$112,000.

### 3. CONTRIBUTIONS RECEIVABLE

Contributions receivable as of May 31, 2007 and 2006, consists of amounts expected to be collected in:

	<b>2007</b>	<b>2006</b>
Less than one year	\$ 7,308,000	\$ 8,320,000
One to five years	15,538,000	17,595,000
More than five years	<u>6,416,000</u>	<u>7,130,000</u>
Total	29,262,000	33,045,000
Less allowance for uncollectible contributions of \$612,000 and \$687,000 and discount of \$2,340,000 and \$2,907,000 as of May 31, 2007 and 2006, respectively	<u>(2,952,000)</u>	<u>(3,594,000)</u>
Contributions receivable — net	<u>\$26,310,000</u>	<u>\$29,451,000</u>

### 4. INVESTMENTS

Investments as of May 31, 2007 and 2006, consist of the following:

	<b>2007</b>	<b>2006</b>
Marketable securities:		
Equity securities	\$ 140,832,000	\$ 128,856,000
Fixed-income securities	33,098,000	32,679,000
Short-term investments	179,000	569,000
Real estate	18,550,000	18,247,000
Life income, annuity, and trust funds	11,072,000	9,849,000
Private equity securities and other	<u>43,310,000</u>	<u>22,600,000</u>
Total	<u>\$247,041,000</u>	<u>\$212,800,000</u>

In addition, restricted investments include bond proceeds restricted to finance the acquisition, construction, renovation, remodeling, and equipping of certain educational facilities. As of May 31, 2007 and 2006, restricted bond proceeds were \$30,151,000 and \$38,368,000, respectively, and were invested in short-term, high-grade U.S. treasury securities.

## 5. PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment as of May 31, 2007 and 2006, consist of the following:

	2007	2006
Land	\$ 12,699,000	\$ 12,391,000
Buildings and improvements	245,270,000	235,330,000
Furniture and equipment	51,467,000	53,216,000
Library books and collections	56,667,000	53,037,000
Construction in progress	<u>13,823,000</u>	<u>8,431,000</u>
Property, plant, and equipment — total	379,926,000	362,405,000
Less accumulated depreciation	<u>(106,567,000)</u>	<u>(98,456,000)</u>
Property, plant, and equipment — net	<u>\$ 273,359,000</u>	<u>\$ 263,949,000</u>

## 6. BONDS PAYABLE

Bonds payable as of May 31, 2007 and 2006, consist of the following:

	2007	2006
California Educational Facilities Authority (CEFA) Revenue Bonds:		
CEFA Series 2006; variable interest rate, principal due annually beginning October 1, 2007, and applicable interest due weekly in varying amounts through 2036	\$ 56,900,000	\$ -
CEFA Series 2005A; variable interest rate, principal due annually beginning October 1, 2005, and applicable interest due weekly in varying amounts through 2026	23,210,000	23,310,000
CEFA Series 2005B; variable interest rate, principal due annually beginning October 1, 2007, and applicable interest due monthly in varying amounts through 2035	27,500,000	27,500,000
CEFA Series 2003; variable interest rate, principal due annually beginning May 31, 2004, and applicable interest due monthly in varying amounts through 2033	38,200,000	39,000,000
CEFA Series 2000; variable interest rate, first principal payment due on June 1, 2004, then due annually beginning May 1, 2005 through 2030, and applicable interest due monthly in varying amounts through 2030	24,000,000	24,800,000
CEFA Series 1996; interest rates from 3.70%–6.25%, principal due annually on October 1, and applicable interest due semiannually in varying amounts through 2026	<u>9,810,000</u>	<u>66,270,000</u>
Total	<u>\$ 179,620,000</u>	<u>\$ 180,880,000</u>

The University has issued CEFA revenue bonds to finance the construction, renovation, and equipping of certain educational facilities; to pay certain costs of issuance; and to refund or defease prior bond issues. All CEFA revenue bonds are secured by certain buildings and improvements located on the University's main campus.

Aggregate annual maturities of long-term indebtedness for the fiscal year ended May 31, 2007, are as follows:

<b>Years Ending May 31</b>	
2008	\$ 3,740,000
2009	4,150,000
2010	4,260,000
2011	4,570,000
2012	4,790,000
Thereafter	<u>158,110,000</u>
 Total	 <u>\$ 179,620,000</u>

The balance outstanding on the bonds defeased by the CEFA Series 1996 revenue bonds totaled \$19,080,000 and \$20,255,000 at May 31, 2007 and 2006, respectively.

On July 27, 2006, the University issued \$56,900,000 in Variable Rate Revenue Bonds (Series 2006 Bonds) through CEFA for the purpose of refunding \$33,675,000 of the University's outstanding CEFA 1996 bond issue; to finance the construction, renovation, remodeling, and equipping of certain educational facilities; and to pay certain costs of issuance of the Series 2006 Bonds. The Series 2006 Bonds are subject to redemption prior to their stated maturity in part from Mandatory Sinking Account Payments beginning on October 1, 2007, and continuing through the October 1, 2036, maturity date.

On August 1, 2005, the University issued \$23,410,000 in Variable Rate Refunding Revenue Bonds (Series 2005A Bonds) through CEFA for the purpose of advance refunding \$21,145,000 of the University's outstanding CEFA 1996 bonds and to pay certain costs of issuance of the Series 2005A Bonds. The proceeds for the advance refunding are included in restricted investments in the accompanying statement of financial position, and will be used to refund a portion of the CEFA 1996 bond issued, including the applicable call premium and accrued interest, on October 1, 2006. Concurrently with the issuance of the Series 2005A Bonds, the University also issued \$27,500,000 in Variable Rate Demand Revenue Bonds (Series 2005B Bonds) through CEFA to finance the construction, renovation, remodeling, and equipping of certain educational facilities and to pay certain costs of issuance of the bonds. Unspent proceeds are included in restricted investments.

Effective December 15, 2003, and in connection with the CEFA Series 2003 Bonds, the University entered into an interest rate swap agreement. The interest rate swap agreement was executed in the notional amount of \$20,000,000 and is amortized over the life of the swap. The interest rate swap agreement is unsecured and effectively fixes 64.31% of 30-day London InterBank Offered Rate (LIBOR) on the amortized notional amount at 3.59%.

Effective August 18, 2005, and in connection with the Series 2005A and Series 2005B Bonds, the University entered into two interest rate swap agreements in the notional amounts of \$23,410,000 and \$27,500,000, respectively. The 2005A and 2005B interest rate swap agreements are unsecured, amortized over the life of the swaps, and effectively fix 67% of 30-day LIBOR on the amortized notional amounts at 3.325% and 3.34%, respectively.

Effective July 27, 2006, and in connection with the CEFA Series 2006 Bonds, the University entered into two interest rate swap agreements in the notional amounts of \$32,900,000 and \$24,000,000, respectively. These interest rate swap agreements are unsecured, amortized over the life of the swaps, and effectively fix 67% of 30-day LIBOR on the amortized notional amounts at 3.455% and 3.95%, respectively. The expiration dates of the swap agreements correspond with the maturity dates of the related bonds.

The fair value of the interest rate swap agreements is estimated based on quotes from the market makers of these investments and represents the estimated amounts the University expects to receive or pay to terminate the agreements. At May 31, 2007 and 2006, respectively, the University has reflected an asset in the amount of \$1,305,000 and \$3,606,000 in the accompanying statements of financial position. The University's interest rate swap agreements do not qualify as cash flow hedges as outlined in FASB Statement No. 133, and as a result, changes in the fair value of the interest rate swap agreements during a period are recognized immediately in change in net assets.

The effective interest rate on the University's long-term indebtedness was 6.37% and 5.41% as of May 31, 2007 and 2006, respectively.

No interest was eligible to be capitalized in conjunction with construction projects for the years ended May 31, 2007 and 2006.

The CEFA agreements require compliance with various debt covenants and financial ratios. As of May 31, 2007, the University believes it was in compliance with the required financial covenants. The estimated fair value of the CEFA bonds at May 31, 2007 and 2006, was approximately \$179,833,000 and \$183,015,000, respectively.

The University has a \$30,000,000 revolving line of credit with Bank of America related to federal loans made by the University to students. The line of credit is payable upon the sale of the loans to Bank of America with interest due quarterly at the 90-day LIBOR plus 25 basis points. The amount payable on the line of credit as of May 31, 2007 and 2006, is \$184,000 and \$234,000, respectively.

In addition, the University has a \$6,000,000 unsecured line of credit bearing interest at Bank of America's reference rate plus 25 basis points. There were no borrowings under this line of credit as of May 31, 2007 and 2006.

## 7. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of May 31, 2007 and 2006, are restricted to:

	2007	2006
Acquisition of property, plant, and equipment	\$ 11,573,000	\$ 17,355,000
Passage of time	13,524,000	13,428,000
Scholarship and departmental programs	<u>282,000</u>	<u>151,000</u>
Total	<u>\$ 25,379,000</u>	<u>\$ 30,934,000</u>

Net assets released from donor restrictions during the years ended May 31, 2007 and 2006, were as follows:

	2007	2006
Purpose restrictions accomplished:		
Renovation of University facilities	\$ 8,264,000	\$ 7,137,000
Scholarship, departmental, and other programs	49,000	180,000
Time restrictions expired	<u>1,786,000</u>	<u>851,000</u>
Total	<u>\$ 10,099,000</u>	<u>\$ 8,168,000</u>

## 8. RELATED-PARTY TRANSACTIONS

In 1970, The Jesuit Community of the University of San Francisco (the Community), a corporation became an entity separate from the University. However, certain relationships are of continuing significance.

Members of the Community serve on the University faculty and administration under individual contracts. Salaries are paid in total to the Community and were approximately \$1,708,000 and \$1,832,000 for the years ended May 31, 2007 and 2006, respectively. In the opinion of the University's management, such salaries are comparable to those of other University employees. For the years ended May 31, 2007 and 2006, the Community made contributions to the University that were recorded as restricted contributions of approximately \$173,000 and \$203,000, respectively. Additionally, at May 31, 2007 and 2006, the University had accounts receivable balances of \$80,000 and \$367,000, respectively, included in other receivables, from the Community for miscellaneous charges. Members of the Community occupied housing facilities recorded at historical cost of \$10,512,000 at May 31, 2007 and 2006 (\$9,034,000 net book value at May 31, 2007, and \$9,244,000 net book value at May 31, 2006).

The University holds notes receivable from employees for housing assistance. These notes bear interest at a range of 0% to 7%, are secured by a second deed of trust on the homes, and mature at various dates through 2011. At May 31, 2007 and 2006, the balance of these notes receivable was \$1,610,000 and \$1,285,000, respectively, and is included in other receivables on the statements of financial position.

During the year ended May 31, 2007, the University sold property to an employee at a third-party appraised value of approximately \$1,200,000.

The University has an investment in six limited partnership agreements where a trustee is a partner. These transactions were approved by the Board of Trustees. As of May 31, 2007 and 2006, the University had contributed approximately \$6,133,000 and \$4,333,000, respectively, to the partnerships, which are included in marketable securities and as of May 31, 2007 and 2006, had committed to make additional capital contributions of approximately \$7,867,000 and \$4,667,000, respectively.

## **9. RETIREMENT BENEFITS**

Substantially all nontemporary full-time employees of the University are covered under a 401(a) defined contribution retirement plan (the Plan) administered by the Teachers' Insurance and Annuity Association — College Retirement Equities Fund. The Plan requires the University to contribute 10% of employees' base salary below the Social Security wage base and 12% on the amount above the Social Security wage base to the Plan. Total pension expense under the Plan was \$7,619,000 and \$7,195,000 for the years ended May 31, 2007 and 2006, respectively. There are no employee-matching requirements under the Plan. In addition to the Plan, substantially all employees are eligible to participate in a voluntary 403(b) defined contribution plan. There are no University-contribution requirements under this plan.

## **10. COMMITMENTS AND CONTINGENCIES**

The University has entered into 31 limited partnership arrangements for investment purposes, whereby the University has committed to make capital contributions to the partnerships of \$72,000,000. This commitment includes the related-party commitment of \$14,000,000 as discussed in Note 8. As of May 31, 2007 and 2006, the University had contributed approximately \$30,291,000 and \$16,872,000, respectively, to the partnerships.

The University has various purchase commitments totaling \$1,443,000 at May 31, 2007, related primarily to construction contracts.

The University has a purchase commitment to purchase natural gas from WD Energy Services, Inc. The purchase commitment meets the definition of a derivative under FASB Statement No. 133 and, as such, qualifies as a derivative. Due to the repricing provisions of the commitment, management believes that no material value would be associated with the purchase commitment as of May 31, 2007 and 2006.

The University is also contingently liable in connection with claims, matters subject to arbitration, and contracts arising in the normal course of its activities. In addition, the University receives funds from various federal and state government-funded programs, including loan funds, which are subject to audit by cognizant governmental agencies. The University is also subject to audit by other government agencies.

The University leases certain educational facilities under noncancelable operating leases. Future minimum lease payments for all noncancelable operating leases in excess of one year as of May 31, 2007, for the next five years are as follows:

<b>Years Ending May 31</b>	
2008	\$ 1,107,000
2009	523,000
2010	284,000
2011	<u>71,000</u>
Total	<u>\$ 1,985,000</u>

Rent expense was \$2,601,000 and \$2,489,000 for the years ended May 31, 2007 and 2006, respectively.

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