

University of San Francisco

Financial Statements as of and for the
Years Ended May 31, 2009 and 2008, and
Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of financial position of the University of San Francisco (the "University") as of May 31, 2009 and 2008, and the related statements of activities and changes in net assets and of 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 and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. 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, 2009 and 2008, 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 8 to the financial statements, during the year ended May 31, 2009, the University changed its method for accounting for endowments to comply with the newly enacted Uniform Prudent Management of Institutional Funds Act (UPMIFA) and Financial Accounting Standards Board Staff Position FAS 117-1: *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*.

Deloitte & Touche LLP

October 15, 2009

UNIVERSITY OF SAN FRANCISCO

STATEMENTS OF FINANCIAL POSITION AS OF MAY 31, 2009 AND 2008 (In thousands)

	2009	2008
ASSETS		
CASH AND CASH EQUIVALENTS	\$ 48,445	\$ 28,173
RECEIVABLES:		
Student accounts — net of allowance of \$2,717 in 2009 and \$1,202 in 2008	7,492	12,847
Contributions — net of allowance of \$657 in 2009 and \$538 in 2008	18,223	22,074
Student loans — net of allowance of \$865 in 2009 and \$703 in 2008	12,824	14,904
Other	11,619	11,520
INVESTMENTS	202,184	265,730
RESTRICTED INVESTMENTS	95	14,369
PREPAID EXPENSES AND OTHER ASSETS	8,120	9,165
PROPERTY, PLANT, AND EQUIPMENT — Net	<u>311,999</u>	<u>296,787</u>
TOTAL	<u>\$ 621,001</u>	<u>\$ 675,569</u>
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable and accrued liabilities	\$ 29,190	\$ 35,858
Asset retirement obligations	2,210	2,256
Liability under split-interest agreements	2,235	2,689
Liability under interest rate swap agreements	13,495	4,460
Deferred revenue	19,225	17,962
Federal student loan funds refundable	9,574	9,673
Line of credit — school as lender program		2,204
Bonds payable	<u>171,730</u>	<u>175,880</u>
Total liabilities	<u>247,659</u>	<u>250,982</u>
NET ASSETS:		
Unrestricted	217,683	292,589
Temporarily restricted	46,267	21,576
Permanently restricted	<u>109,392</u>	<u>110,422</u>
Total net assets	<u>373,342</u>	<u>424,587</u>
TOTAL	<u>\$ 621,001</u>	<u>\$ 675,569</u>

See notes to financial statements.

UNIVERSITY OF SAN FRANCISCO

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS FOR THE YEARS ENDED MAY 31, 2009 AND 2008

(In thousands)

	2009			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
REVENUES AND OTHER SUPPORT:				
Tuition and fees	\$245,855	\$ -	\$ -	\$245,855
Grants and contracts	12,313			12,313
Investment income	5,027			5,027
Contributions	7,098	2,466	1,592	11,156
Net realized and unrealized losses on investments	(15,030)	(34,133)	(453)	(49,616)
Change in actuarial value of split-interest agreements		(1,244)	(676)	(1,920)
Change in value of interest rate swap agreements	(9,035)			(9,035)
Auxiliary revenue	29,871			29,871
Other	5,018			5,018
Total revenues	281,117	(32,911)	463	248,669
Net assets released from restrictions	7,901	(7,901)		-
Total revenues and other support	289,018	(40,812)	463	248,669
EXPENSES — Program expenses:				
Instruction	113,857			113,857
Research	1,994			1,994
Public service	1,401			1,401
Academic support	27,451			27,451
Student services	27,638			27,638
Institutional support	39,418			39,418
Scholarships and fellowships	57,647			57,647
Auxiliary enterprises	30,508			30,508
Total expenses	299,914	-	-	299,914
CHANGE IN DONOR STIPULATIONS	(25)		25	-
(DECREASE) INCREASE IN NET ASSETS BEFORE CHANGE IN ACCOUNTING PRINCIPLE	(10,921)	(40,812)	488	(51,245)
CUMULATIVE EFFECT ON PRIOR YEARS DUE TO CHANGE IN ACCOUNTING PRINCIPLE	(63,985)	65,503	(1,518)	-
NET ASSETS — Beginning of year	292,589	21,576	110,422	424,587
NET ASSETS — End of year	\$217,683	\$ 46,267	\$109,392	\$373,342

(Continued)

UNIVERSITY OF SAN FRANCISCO

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS FOR THE YEARS ENDED MAY 31, 2009 AND 2008

(In thousands)

	2008			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
REVENUES AND OTHER SUPPORT:				
Tuition and fees	\$225,871	\$ -	\$ -	\$225,871
Grants and contracts	10,348			10,348
Investment income	12,997	1	8	13,006
Contributions	7,814	1,875	4,478	14,167
Net realized and unrealized (losses) gains on investments	(10,442)	24	(369)	(10,787)
Change in actuarial value of split-interest agreements		(134)	(236)	(370)
Change in value of interest rate swap agreements	(5,765)			(5,765)
Auxiliary revenue	28,670			28,670
Other	6,698			6,698
Total revenues	276,191	1,766	3,881	281,838
Net assets released from restrictions	5,569	(5,569)		-
Total revenues and other support	281,760	(3,803)	3,881	281,838
EXPENSES — Program expenses:				
Instruction	105,626			105,626
Research	2,327			2,327
Public service	4,383			4,383
Academic support	25,646			25,646
Student services	26,605			26,605
Institutional support	36,294			36,294
Scholarships and fellowships	48,688			48,688
Auxiliary enterprises	26,783			26,783
Total expenses	276,352	-	-	276,352
CHANGE IN DONOR STIPULATIONS	(54)		54	-
INCREASE (DECREASE) IN NET ASSETS	5,354	(3,803)	3,935	5,486
NET ASSETS — Beginning of year	287,235	25,379	106,487	419,101
NET ASSETS — End of year	\$292,589	\$21,576	\$110,422	\$424,587

See notes to financial statements.

(Concluded)

UNIVERSITY OF SAN FRANCISCO

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED MAY 31, 2009 AND 2008 (In thousands)

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
(Decrease) increase in net assets	\$ (51,245)	\$ 5,486
Adjustment to reconcile (decrease) increase in net assets to net cash provided by operating activities:		
Depreciation	14,620	13,957
Accretion of asset retirement obligation liability	(46)	16
Provision for bad debt	1,747	818
Forgiveness of employee notes	70	66
Net realized and unrealized losses on investments	49,616	10,787
Change in actuarial value of split interest agreements	2,374	459
Change in value of interest rate swap agreements	9,035	5,765
Gains on disposal of assets	(161)	
Contributions restricted for investment in endowment and plant	(745)	(6,656)
Gifts of real estate and investments	(1,827)	(2,610)
Changes in:		
Student accounts receivable — net	3,608	(7,170)
Contributions receivable	3,851	4,236
Other receivables	558	(3,520)
Prepaid expenses and other assets	1,045	423
Accounts payable and accrued liabilities	(7,849)	7,891
Asset retirement obligations		(170)
Liability under split-interest agreements	(454)	(89)
Deferred revenue	1,263	4,279
Net cash provided by operating activities	<u>25,460</u>	<u>33,968</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property, plant, and equipment	(28,651)	(34,618)
Proceeds from disposal of assets	161	
Proceeds from sale of investments	146,264	89,864
Purchases of investments	(118,607)	(87,907)
Issuance of student loans	(1,463)	(4,053)
Student loan repayments	3,543	1,317
Issuance of employee notes	(727)	(1,402)
Net cash used in investing activities	<u>520</u>	<u>(36,799)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from line of credit — school as lender program		35,742
Payments on line of credit — school as lender program	(2,204)	(33,723)
Payments on bonds and notes payable	(4,150)	(3,740)
Contributions restricted for investment in endowment and plant	745	6,656
Net change in federal student loan funds refundable	(99)	59
Net cash provided by (used in) financing activities	<u>(5,708)</u>	<u>4,994</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	20,272	2,163
CASH AND CASH EQUIVALENTS — Beginning of year	<u>28,173</u>	<u>26,010</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 48,445</u>	<u>\$ 28,173</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION — Interest paid	<u>\$ 7,979</u>	<u>\$ 8,630</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES — Additions to property, plant, and equipment included in accounts payable and accrued liabilities	<u>\$ 1,181</u>	<u>\$ 4,735</u>

See notes to financial statements.

UNIVERSITY OF SAN FRANCISCO

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED MAY 31, 2009 AND 2008

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 (“generally accepted accounting principles”), 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 \$25,000 from unrestricted to permanently restricted net assets in 2009 and approximately \$54,000 from unrestricted to permanently restricted net assets in 2008.

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, 2009 and 2008, totaled approximately \$865,000 and \$703,000, respectively, of which approximately \$141,000 and \$126,000, respectively, related to federally funded programs.

The University acted as a lender for certain graduate student loans and held the notes until the loans were fully disbursed. Effective May 31, 2008, no new loans were originated under this program. Following full disbursement, the loans were sold to Bank of America at a contracted premium. The amount due from these loans as of May 31, 2008, was \$2,247,000 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 composed 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 that 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 Internal Revenue Service (IRS) mortality table, and an average discount rate of 5.2%.

As of May 31, 2009 and 2008, investments in marketable securities include \$2,095,000 and \$3,098,000, 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 \$955,000 and \$1,332,000 are included in liability under split interest agreements as of May 31, 2009 and 2008, respectively. Investments include \$7,046,000 and \$6,829,000 as of May 31, 2009 and 2008, 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 4.67%.

As of May 31, 2009 and 2008, investments in marketable securities include \$2,252,000 and \$2,627,000, 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 \$1,280,000 and \$1,357,000 are included in liability under split-interest agreements as of May 31, 2009 and 2008, respectively. Investments include \$1,670,000 and \$2,016,000 as of May 31, 2009 and 2008, respectively, where the University is not the trustee.

As of May 31, 2009 and 2008, investments include \$286,000 and \$278,000, 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 that approximates the effective interest method. The unamortized bond issuance costs were \$3,653,000 and \$3,847,000 as of May 31, 2009 and 2008, respectively.

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 improvements	10–50 years
Furniture and equipment	3–10 years
Library books and collections	20–50 years

Deferred Revenue — Deferred revenue is recorded for tuition and fees assessed and billed 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 released 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 the University's management. With the implementation of a new information technology system during the year ended May 31, 2008, the University refined its allocation of direct costs among program expenses to more accurately reflect expenditures in these areas.

Fair Value of Financial Instruments — Financial instruments included in the University’s statements of financial position as of May 31, 2009 and 2008, 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 7) 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, 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 (the “Code”) and is exempt from federal and state income taxes on related activities. The University is, however, subject to federal and state income tax on unrelated business income and appropriate provision for any such taxes is included in the accompanying financial statements.

Use of Estimates — The preparation of financial statements in accordance with generally accepted accounting principles 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.

New Accounting Pronouncements — In September 2006, the FASB issued FASB 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.

In March 2008, the FASB issued FASB Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities — an amendment of FASB Statement No. 133*. This statement requires additional disclosures about the University’s objectives and strategies for using derivative instruments, how the derivative instruments and related hedged items are accounted for under FASB Statement No. 133, and how the derivative instruments and related hedged items affect the financial statements. FASB Statement No. 161 is effective for financial statements issued for fiscal years beginning after November 15, 2008. Management is currently assessing the impact of this statement on the financial statements.

In August 2008, the FASB issued FASB Staff Position (FSP) FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*. FSP FAS 117-1 states that a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) shall classify a portion of a donor-restricted endowment fund of perpetual duration as permanently restricted net assets. Consistent with paragraph 14

of FASB Statement No. 116 and paragraph 22 of FASB Statement No. 117, the amount classified as permanently restricted shall be the amount of the fund (a) that must be retained permanently in accordance with explicit donor stipulations or (b) that, in the absence of such stipulations, the organization's governing board determines must be retained (preserved) permanently consistent with the relevant law. FSP FAS 117-1 was adopted for the year ended May 31, 2009 (see Note 8.)

2. ASSET RETIREMENT OBLIGATION

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 FASB Interpretation (FIN) No. 47, *Accounting for Conditional Asset Retirement Obligations*, 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 No. 47 as of June 1, 2005, was \$2,179,000.

As of May 31, 2009 and 2008, the University incurred accretion expense of \$(46,000) and \$16,000, respectively. During the year ended May 31, 2009, the University incurred abatement costs of \$119,000 and during the year ended May 31, 2008, the University settled obligations of \$170,000. As of May 31, 2009 and 2008, the asset retirement obligation liability was \$2,210,000 and \$2,256,000, respectively.

3. CONTRIBUTIONS RECEIVABLE

Contributions receivable as of May 31, 2009 and 2008, consist of amounts expected to be collected in:

	2009	2008
Less than one year	\$ 6,487,000	\$ 7,148,000
One to five years	9,919,000	12,142,000
More than five years	<u>3,518,000</u>	<u>4,797,000</u>
Total	19,924,000	24,087,000
Less allowance for uncollectible contributions of \$657,000 and \$538,000 and discount of \$1,044,000 and \$1,475,000 as of May 31, 2009 and 2008, respectively	<u>(1,701,000)</u>	<u>(2,013,000)</u>
Contributions receivable — net	<u>\$ 18,223,000</u>	<u>\$ 22,074,000</u>

4. INVESTMENTS

Investments as of May 31, 2009 and 2008, consist of the following:

	2009	2008
Marketable securities:		
Equity securities and high-yield bonds	\$ 70,623,000	\$ 107,873,000
Fixed-income securities	34,998,000	41,623,000
Auction-rate securities	4,964,000	5,471,000
Short-term investments	3,422,000	20,114,000
Real estate	13,161,000	15,138,000
Life income, annuity, and trust funds	9,002,000	9,123,000
Private equity securities and other	<u>66,014,000</u>	<u>66,388,000</u>
 Total	 <u>\$202,184,000</u>	 <u>\$265,730,000</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, 2009 and 2008, restricted bond proceeds were \$95,000 and \$14,369,000, respectively, and were invested in short-term, high-grade U.S. treasury securities.

5. FAIR VALUE MEASUREMENTS

In September 2006, the FASB issued FASB Statement No. 157, which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements.

Fair value of an investment is the amount that would be received to sell the investment in an orderly transaction between market participants at the measurement date (i.e., the exit price).

FASB Statement No. 157 establishes a hierarchical disclosure framework that prioritizes and ranks the level of market price observability used in measuring investments at fair value. Market price observability is impacted by a number of factors, including the type of investment and the characteristics specific to the investment. Investments with readily available actively quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

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

Level I — Quoted prices are available in active markets for identical investments as of the reporting date. The type of investments included in Level I are publicly traded equity securities. As required by FASB Statement No. 157, the University does not adjust the quoted price for these investments even in situations where the University holds a large position and a sale could reasonably impact the quoted price.

Level II — Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Investments that are generally included in this category are publicly traded equity securities with restrictions and certain debt securities.

Level III — Pricing inputs are unobservable and include situations where there is little, if any, market activity for the investment. At May 31, 2009, the University's private investment holdings were valued at \$84,139,000 (13.5% of total assets), whose values have been estimated by the management of the University in the absence of readily ascertainable market values.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The University's management's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment.

The following table as of May 31, 2009, summarizes the valuation of the University's investments by the above FASB Statement No. 157 fair value hierarchy levels:

	Level I	Level II	Level III	Total
Investments in marketable securities, real estate, and private investment funds	<u>\$ 114,734,000</u>	<u>\$ 3,311,000</u>	<u>\$ 84,139,000</u>	<u>\$ 202,184,000</u>

Level III Investments

Balance — June 1, 2008	\$ 87,376,000
Realized and unrealized losses	(13,375,000)
Purchases and transfers — net of sales	<u>10,138,000</u>
Level III Investment balance — May 31, 2009	<u>\$ 84,139,000</u>

Total losses included in the statement of activities and changes in net assets that are attributable to changes in unrealized gains or losses of investments still held as of May 31, 2009, are \$40,289,000.

6. PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment as of May 31, 2009 and 2008, consist of the following:

	2009	2008
Land	\$ 13,581,000	\$ 13,125,000
Buildings and improvements	296,713,000	254,106,000
Furniture and equipment	56,821,000	55,931,000
Library books and collections	60,827,000	58,188,000
Construction in progress	<u>6,529,000</u>	<u>28,364,000</u>
Property, plant, and equipment — total	434,471,000	409,714,000
Less accumulated depreciation	<u>(122,472,000)</u>	<u>(112,927,000)</u>
Property, plant, and equipment — net	<u>\$ 311,999,000</u>	<u>\$ 296,787,000</u>

7. BONDS PAYABLE

Bonds payable as of May 31, 2009 and 2008, consist of the following:

	2009	2008
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; fully insured as to principal and interest	\$ 56,600,000	\$ 56,800,000
CEFA Series 2005A; variable interest rate, principal due annually beginning October 1, 2005, and applicable interest due weekly in varying amounts through 2026; fully insured as to principal and interest	22,910,000	23,110,000
CEFA Series 2005B; variable interest rate, principal due annually beginning October 1, 2007, and applicable interest due monthly in varying amounts through 2035; secured by a letter of credit issued by Bank of America	27,300,000	27,400,000
CEFA Series 2003; variable interest rate, principal due annually beginning May 31, 2004, and applicable interest due monthly in varying amounts through 2033; secured by a letter of credit issued by Allied Irish Bank	36,400,000	37,300,000
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; secured by a letter of credit issued by Allied Irish Bank	22,300,000	23,200,000
CEFA Series 1996; interest rates from 3.70% to 6.25%, principal due annually on October 1, and applicable interest due semiannually in varying amounts through 2026; fully insured as to principal and interest	<u>6,220,000</u>	<u>8,070,000</u>
Total	<u>\$ 171,730,000</u>	<u>\$ 175,880,000</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, 2009, are as follows:

Years Ending May 31	
2010	\$ 4,260,000
2011	4,570,000
2012	4,790,000
2013	4,800,000
2014	4,900,000
Thereafter	<u>148,410,000</u>
 Total	 <u>\$ 171,730,000</u>

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.

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 London Interbank Offered Rate (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.

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 statements of financial position and were 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 2005B Bonds. Unspent proceeds are included in restricted investments.

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 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 LIBOR on the amortized notional amount at 3.59%.

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, 2009 and 2008, the University has reflected a liability in the amount of \$13,495,000 and \$4,460,000, respectively, 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 interest rates for the Series 2005A Bonds and the Series 2006 Bonds are variable and are reset on a weekly basis. As a result of the failure of the municipal auction rate securities market, the interest rates on these bonds are reset weekly in accordance with the procedures described in the respective bond indentures. As of May 31, 2009, these interest rates were calculated at 175% of the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index, which was 0.735%.

The effective interest rate on the University's long-term indebtedness was 4.32% and 4.42% as of May 31, 2009 and 2008, respectively.

Interest in the amount of \$259,000 and \$0 was eligible to be capitalized in conjunction with construction projects for the years ended May 31, 2009 and 2008, respectively.

The CEFA agreements require compliance with various debt covenants and financial ratios. As of May 31, 2009, the University believes it was in compliance with the required financial covenants. The estimated fair value of the CEFA bonds at May 31, 2009 and 2008, was approximately \$172,067,000 and \$175,948,000, respectively.

The University had 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 was payable upon the sale of the loans to Bank of America with interest due quarterly at the 90-day LIBOR plus 25 basis points. Effective May 31, 2008, no new loans were originated under this program. During the year ended May 31, 2009, the line of credit with Bank of America was closed and all amounts payable on the line of credit were paid in full to Bank of America. The amount payable on the line of credit as of May 31, 2009 and 2008, is \$0 and \$2,204,000, respectively.

In addition, during the year ended May 31, 2009, the University increased the amount in the unsecured line of credit from \$6,000,000 to \$12,000,000, which now bears interest at LIBOR plus one percentage point. Further, the line of credit now contains an unused commitment fee that will be calculated at 0.5% per year on any difference between the commitment amount and the amount of credit actually used. There were no borrowings under this line of credit as of May 31, 2009 and 2008.

8. ENDOWMENTS

In August 2008, the FASB issued FSP FAS No. 117-1, the provisions of which were applied by the University in the year ended May 31, 2009.

The University's endowment fund consists of individual donor-restricted endowment funds and funds designated by the University's Board of Trustees (the "Board") to function as endowments. The net assets associated with endowment funds, including those funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The State of California enacted UPMIFA in 2008. The Board has interpreted the adopted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are approved for appropriation for expenditure by the University in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the University considers the following factors in making a determination to appropriate or accumulate endowment funds:

- a. The duration and preservation of the fund
- b. The purposes of the University and the donor-restricted endowment fund
- c. General economic conditions
- d. The possible effect of inflation and deflation
- e. The expected total return from income and appreciation of investments
- f. Other resources of the University
- g. The investment policies of the University

Where the Board designates unrestricted funds to function as endowments, they are classified as Board-designated endowments and are included within unrestricted net assets.

The following table presents the University's endowment composition as of May 31, 2009, by type of fund:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment fund	\$ -	\$ 30,198,000	\$ 99,297,000	\$ 129,495,000
Board-designated endowment fund	<u>26,216,000</u>	<u> </u>	<u> </u>	<u>26,216,000</u>
Total funds	<u>\$ 26,216,000</u>	<u>\$ 30,198,000</u>	<u>\$ 99,297,000</u>	<u>\$ 155,711,000</u>

The changes in the University's endowments for the year ended May 31, 2009, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets — June 1, 2008	\$ 105,488,000	\$ -	\$ 97,345,000	\$ 202,833,000
Net asset reclassification based on change in accounting principle	<u>(63,985,000)</u>	<u>65,503,000</u>	<u>(1,518,000)</u>	<u> </u>
Endowment net assets, after change in accounting principle	41,503,000	65,503,000	95,827,000	202,833,000
Investment income	764,000	3,259,000		4,023,000
Investment expense	(175,000)	(745,000)		(920,000)
Net realized and unrealized losses on investments	(8,594,000)	(36,647,000)		(45,241,000)
Additions to investment pool from contributions and pledge payments			3,445,000	3,445,000
Change in donor stipulation			25,000	25,000
Appropriation of endowment assets for expenditure	(1,395,000)	(7,250,000)		(8,645,000)
Transfer for underwater endowments	(6,078,000)	6,078,000		
Other changes — transfers to add to Board-designated endowment funds	<u>191,000</u>	<u> </u>	<u> </u>	<u>191,000</u>
Endowment net assets — May 31, 2009	<u>\$ 26,216,000</u>	<u>\$ 30,198,000</u>	<u>\$ 99,297,000</u>	<u>\$ 155,711,000</u>

Description of Amounts Classified as Permanently Restricted Net Assets and Temporarily Restricted Net Assets as of May 31, 2009

Permanently Restricted Net Assets

The portion of permanently restricted net assets not participating in the investment pool that are required to be retained permanently by explicit donor stipulation or UPMIFA	\$ 10,095,000
The portion of permanently restricted net assets participating in the investment pool that are required to be retained permanently by explicit donor stipulation or UPMIFA	<u>99,297,000</u>
Total permanently restricted net assets	<u>\$ 109,392,000</u>

Temporarily Restricted Net Assets

The portion of perpetual endowment funds subject to a time restriction under UPMIFA	<u>\$ 30,198,000</u>
Total accumulated appreciation of endowment funds not appropriated for expenditure	<u>\$ 30,198,000</u>

Endowment Funds With Deficits — From time to time, the fair value of assets associated with individual donor endowment funds may fall below the value of the initial and subsequent donor gift amounts (deficit). When individual donor endowments decline, temporarily restricted net assets are reduced up to the fair value of the original gift. Further reductions in the fair value of the individual donor endowment are classified as a reduction of unrestricted net assets. Such deficits resulted from unfavorable market and authorized appropriations and expenditures that were deemed prudent. The annual appropriation for endowment funds with deficits is returned to corpus rather than released for spending. Deficits of this

nature reported in unrestricted net assets totaled \$6,078,000 as of May 31, 2009. Future appreciation of the donor endowment restores the value to the original required level.

Return Objectives and Risk Parameters — The University has adopted endowment investment and spending policies that attempt to provide a predictable stream of funding to programs supported by its endowment, while seeking to maintain the purchasing power of endowment assets. Endowment assets include those assets of donor-restricted funds that the University must hold in perpetuity as well as Board-designated funds. Under this policy, endowment assets are invested in a manner that is intended to yield a long-term rate of return of the Consumer Price Index plus 4.5% net of management fees annually, while assuming a moderate level of investment risk. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Investment Objectives — To satisfy its long-term rate-of-return objectives, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

Relationship of Spending Policy to Investment Objectives — The spending policy of the fund includes both the funds available for appropriation, as well as the expenses of managing the fund. In determining the spending policy for the fund, the University took into consideration the needs of the University for current income, as well as the goal of providing a perpetual source of income to the University that will grow at least at the rate of inflation. For planning purposes, the target spending policy is 4.5% of the market value of the fund. Market value, for the purpose of calculating the spending policy, is the three-year moving average of the market value of the fund as of December 31 of each year. Funds identified for appropriation will be distributed once a year following the fiscal year-end (presently May 31 of each year). In addition, the Board may, in response to changing economic circumstances, raise or lower the percentage to be distributed in any given year.

9. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of May 31, 2009 and 2008, are restricted to:

	2009	2008
Acquisition of property, plant, and equipment	\$ 4,249,000	\$ 8,947,000
Accumulated appreciation of endowment funds not appropriated for expenditure	30,198,000	
Passage of time	11,670,000	12,279,000
Scholarship and departmental programs	<u>150,000</u>	<u>350,000</u>
Total	<u>\$46,267,000</u>	<u>\$21,576,000</u>

Net assets released from donor restrictions during the years ended May 31, 2009 and 2008, were as follows:

	2009	2008
Purpose restrictions accomplished:		
Renovation of University facilities	\$ 5,347,000	\$3,555,000
Scholarship, departmental, and other programs	581,000	106,000
Time restrictions expired	801,000	1,908,000
Endowment appropriation for spending	7,250,000	
Transfer for endowments with deficits	<u>(6,078,000)</u>	
 Total	 <u>\$ 7,901,000</u>	 <u>\$5,569,000</u>

10. 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 \$1,553,000 and \$1,376,000 for the years ended May 31, 2009 and 2008, 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, 2009 and 2008, the Community made contributions to the University that were recorded as restricted contributions of approximately \$51,000 and \$177,000, respectively. Additionally, at May 31, 2009 and 2008, the University had accounts receivable balances of \$184,000 and \$357,000, 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, 2009 and 2008, respectively (\$8,613,000 net book value at May 31, 2009, and \$8,824,000 net book value at May 31, 2008).

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. At May 31, 2009 and 2008, the balance of these notes receivable was \$3,603,000 and \$2,946,000, respectively, and is included in other receivables on the statements of financial position.

During the year ended May 31, 2008, the University sold property to an employee at a third-party appraised value of approximately \$1,570,000. The University did not sell any properties during the year ended May 31, 2009.

The University has an investment in seven limited partnership agreements in which a trustee is a partner. These transactions were approved by the Board. As of May 31, 2009 and 2008, the University had contributed approximately \$9,393,000 and \$8,239,000, respectively, to the partnerships, which are included in private equity securities and other and as of May 31, 2009 and 2008, and had committed to make additional capital contributions of approximately \$5,207,000 and \$6,361,000, respectively.

11. 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 retirement expense under the Plan was \$9,214,000 and \$8,532,000 for the years ended May 31, 2009 and 2008, respectively, which is net of total forfeitures under the Plan of \$290,000 and \$263,000 for the years ended May 31, 2009 and 2008, 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.

12. COMMITMENTS AND CONTINGENCIES

The University has entered into 38 limited partnership arrangements for investment purposes, whereby the University has committed to make capital contributions to the partnerships of \$84,100,000. This commitment includes the related-party commitment of \$14,600,000 as discussed in Note 10. As of May 31, 2009 and 2008, the University had contributed approximately \$54,423,000 and \$42,595,000, respectively, to the partnerships.

The University has a purchase commitment to purchase natural gas from Constellation Energy Services. 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, 2009 and 2008.

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. Management is of the opinion that the ultimate outcome of such matters will not have a significant effect on the financial position of the University.

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, 2009, for the next five years are as follows:

Years Ending May 31	
2010	\$ 1,586,000
2011	1,001,000
2012	324,000
2013	272,000
2014	279,000
Thereafter	<u>189,000</u>
Total	<u>\$3,651,000</u>

Rent expense was \$3,051,000 and \$2,888,000 for the years ended May 31, 2009 and 2008, respectively.

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