CALIFORNIA LUTHERAN UNIVERSITY AND AFFILIATE

Consolidated Financial Statements
Including Independent Auditors' Report

May 31, 2011 and 2010

CALIFORNIA LUTHERAN UNIVERSITY AND AFFILIATE

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INDEPENDENT AUDITORS' REPORT

To the Board of Regents
California Lutheran University
Thousand Oaks, California

We have audited the accompanying consolidated statements of financial position of California Lutheran University and its affiliated entity as of May 31, 2011 and 2010, and the related consolidated statements of activities 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 consolidated 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 consolidated 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, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of California Lutheran University and its affiliated entity at May 31, 2011 and 2010, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
September 20, 2011

CALIFORNIA LUTHERAN UNIVERSITY AND AFFILIATE

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
May 31, 2011 and 2010

ASSETS

	2011	2010
Cash and cash equivalents	$ 12,248,617	$ 7,553,714
Receivables		
Student accounts, net of allowance for doubtful accounts of $284,000 in 2011 and $207,000 in 2010	1,888,693	1,722,550
Grants	263,563	1,752,912
Contributions	5,809,538	6,528,979
Other	1,260,836	1,425,180
Prepaid expenses, inventories and deposits	1,240,378	1,148,837
Student notes receivable, net of allowance for doubtful notes of $85,000 in 2011 and 2010	1,659,175	1,748,410
Investments		
Endowment	56,611,628	49,672,968
Deferred gifts held by University	2,317,010	2,579,476
California Lutheran Educational Foundation investments	7,202,087	7,400,608
Other	709,769	958,240
Funds held in trust by others	369,524	232,571
Deposits with trustee		
Cash and short-term investments - available	10,505,124	10,505,124
Cash and short-term investments - reserved	12,595,236	12,735,011
Debt acquisition costs	2,160,428	2,249,621
Construction in progress	3,323,523	7,696,206
Property, plant and equipment, net	120,129,614	108,703,517
TOTAL ASSETS	$ 240,294,743	$ 224,613,924

LIABILITIES AND NET ASSETS

	2011	2010
LIABILITIES		
Accounts payable	$ 1,570,324	$ 1,895,722
Accrued liabilities	7,153,459	7,381,543
Student housing deposits	924,096	395,006
Deferred revenue	1,690,318	956,321
Long-term debt	74,488,750	75,672,567
Interest rate exchange agreement liability	140,592	
Annuities payable	5,674,116	6,520,792
Deposits held in trust for others	351,359	322,613
Government grants refundable	1,553,502	1,534,833
Total Liabilities	93,546,516	94,679,397
NET ASSETS		
Unrestricted	94,814,287	78,083,035
Temporarily restricted	18,761,998	20,069,759
Permanently restricted	33,171,942	31,781,733
Total Net Assets	146,748,227	129,934,527
TOTAL LIABILITIES AND NET ASSETS	$ 240,294,743	$ 224,613,924

See accompanying notes to consolidated financial statements.

CALIFORNIA LUTHERAN UNIVERSITY AND AFFILIATE

CONSOLIDATED STATEMENT OF ACTIVITIES
Year Ended May 31, 2011
With Comparative Totals for 2010

	2011 Unrestricted	2011 Temporarily Restricted	2011 Permanently Restricted	2011 Total	2010 Total
OPERATING					
Revenues, gains and other support					
Tuition and fees	$ 91,033,508	$	$	$ 91,033,508	$ 78,825,653
Less: Scholarships and grants	(28,776,553)			(28,776,553)	(24,992,512)
Net tuition and fees	62,256,955			62,256,955	53,833,141
Government grants	1,887,749			1,887,749	1,996,117
Contributions	1,593,622	1,455,254		3,048,876	2,896,917
Long-term investment income and gains allocated for operations	194,350	1,777,170		1,971,520	1,689,908
Net gains (losses) on other investments	(75,956)			(75,956)	(456,937)
Interest and dividends	474,638			474,638	668,499
Sales and services of educational activities	1,262,029			1,262,029	993,397
Other sources	2,009,023			2,009,023	2,379,135
Sales and services of auxiliary enterprises	15,427,031			15,427,031	13,784,712
	85,029,441	3,232,424		88,261,865	77,784,889
Net assets released from restrictions	2,182,433	(2,182,433)			
Transfer	12,850	(12,850)			
Total revenues, gains and other support	87,224,724	1,037,141		88,261,865	77,784,889
Expenses					
Program expenses					
Instruction	30,045,610			30,045,610	26,827,261
Public service	3,674,248			3,674,248	3,298,423
Academic support	4,693,373			4,693,373	3,691,511
Student services	15,061,375			15,061,375	13,461,849
Auxiliary enterprises	15,603,255			15,603,255	14,605,096
Support expenses					
Institutional support	12,784,273			12,784,273	11,987,112
Allocable expenses					
Operation and maintenance of plant	6,979,596			6,979,596	5,825,696
Depreciation and accretion	5,964,490			5,964,490	5,461,414
Interest	3,478,191			3,478,191	3,410,695
Less: Allocated expenses	(16,422,277)			(16,422,277)	(14,697,805)
Total expenses	81,862,134			81,862,134	73,871,252
Change in net assets from operating activities	5,362,590	1,037,141		6,399,731	3,913,637
NONOPERATING					
Endowment income	2,234,196	5,093,122		7,327,318	5,036,182
Less: Long-term investment income and gains allocated for operations	(194,350)	(1,777,170)		(1,971,520)	(1,689,908)
Investment return undistributed	2,039,846	3,315,952		5,355,798	3,346,274
Net loss on CEFA bond reserve	(626,726)			(626,726)	
Unrealized loss on interest rate exchange agreement	(140,592)			(140,592)	
Deferred giving - gifts	15,726		664,655	680,381	2,451,953
Capital giving - gifts	51,538	3,618,605		3,670,143	6,105,848
Gains on funds held in trust by others		31,928	129,483	161,411	33,594
Adjustment to actuarial liability for annuities payable	194,457	684,733	514,611	1,393,801	15,897
Loss on disposal of property, plant and equipment	(80,247)			(80,247)	(8,109)
Net assets released from restrictions - nonoperating	10,766,894	(10,766,894)			
Change in net assets from nonoperating activities	12,220,896	(3,115,676)	1,308,749	10,413,969	11,945,457
Change in net assets before reclassification of net assets	17,583,486	(2,078,535)	1,308,749	16,813,700	15,859,094
Reclassification of prior year net assets	(852,234)	770,774	81,460		
Change in Net Assets	16,731,252	(1,307,761)	1,390,209	16,813,700	15,859,094
NET ASSETS - Beginning of Year	78,083,035	20,069,759	31,781,733	129,934,527	114,075,433
NET ASSETS - END OF YEAR	$ 94,814,287	$ 18,761,998	$ 33,171,942	$ 146,748,227	$ 129,934,527

See accompanying notes to consolidated financial statements.

CALIFORNIA LUTHERAN UNIVERSITY AND AFFILIATE

CONSOLIDATED STATEMENT OF ACTIVITIES
Year Ended May 31, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING				
Revenues, gains and other support				
Tuition and fees	$ 78,825,653	$	$	$ 78,825,653
Less: Scholarships and grants	(24,992,512)			(24,992,512)
Net tuition and fees	53,833,141			53,833,141
Government grants	1,996,117			1,996,117
Contributions	1,365,883	1,531,034		2,896,917
Long-term investment income and gains allocated for operations	618,700	1,071,208		1,689,908
Net gains (losses) on other investments	(465,654)	8,717		(456,937)
Interest and dividends	668,499			668,499
Sales and services of educational activities	993,397			993,397
Other sources	2,377,779	1,356		2,379,135
Sales and services of auxiliary enterprises	13,784,712			13,784,712
	75,172,574	2,612,315		77,784,889
Net assets released from restrictions	2,115,441	(2,115,441)		
Transfer	173,625	(173,625)		
Total revenues, gains and other support	77,461,640	323,249		77,784,889
Expenses				
Program expenses				
Instruction	26,827,261			26,827,261
Public service	3,298,423			3,298,423
Academic support	3,691,511			3,691,511
Student services	13,461,849			13,461,849
Auxiliary enterprises	14,605,096			14,605,096
Support expenses				
Institutional support	11,987,112			11,987,112
Allocable expenses				
Operation and maintenance of plant	5,825,696			5,825,696
Depreciation and accretion	5,461,414			5,461,414
Interest	3,410,695			3,410,695
Less: Allocated expenses	(14,697,805)			(14,697,805)
Total expenses	73,871,252			73,871,252
Change in net assets from operating activities	3,590,388	323,249		3,913,637
NONOPERATING				
Endowment income	2,862,721	2,118,632	54,829	5,036,182
Less: Long-term investment income and gains allocated for operations	(618,700)	(1,071,208)		(1,689,908)
Investment return undistributed	2,244,021	1,047,424	54,829	3,346,274
Deferred giving - gifts	53,083	63,736	2,335,134	2,451,953
Capital giving - gifts	70,788	6,035,060		6,105,848
Gains on funds held in trust by others		33,594		33,594
Adjustment to actuarial liability for annuities payable		(49,174)	65,071	15,897
Gain or loss on disposal of property, plant and equipment	(8,109)			(8,109)
Net assets released from restrictions - nonoperating	2,207,515	(2,207,515)		
Transfers	10,300	(12,583)	2,283	
Change in net assets from nonoperating activities	4,577,598	4,910,542	2,457,317	11,945,457
Change in net assets before reclassification of net assets	8,167,986	5,233,791	2,457,317	15,859,094
Reclassification of prior year net assets	(1,291,025)	918,989	372,036	
Change in Net Assets	6,876,961	6,152,780	2,829,353	15,859,094
NET ASSETS - Beginning of Year	71,206,074	13,916,979	28,952,380	114,075,433
NET ASSETS - END OF YEAR	$ 78,083,035	$ 20,069,759	$ 31,781,733	$ 129,934,527

See accompanying notes to consolidated financial statements.

CALIFORNIA LUTHERAN UNIVERSITY AND AFFILIATE

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended May 31, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 16,813,700	$ 15,859,094
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Interest earned on deposits with Trustee	(578,658)	(618,346)
Depreciation, amortization and accretion	6,053,683	5,550,178
(Gains) loss on investments, net	(7,251,362)	(4,579,245)
Unrealized loss on CEFA bond proceeds	626,726	
Change in allowance for doubtful accounts	77,419	(50,873)
Change in interest rate exchange agreement liability	140,592	
Actuarial adjustment of annuities payable	(52,049)	807,961
Loan cancellations and write-offs	12,116	16,040
Loss on disposal of assets	80,247	8,109
(Gain) loss on funds held in trust by others	(136,953)	11,381
Changes in current assets and liabilities		
Student accounts receivable	(243,562)	(162,391)
Grants receivable	1,489,349	(1,537,226)
Other receivables	164,344	260,656
Prepaid expenses, inventories and deposits	(91,541)	(448,861)
Accounts payable - operations	(185,946)	536,759
Accrued liabilities	(228,084)	49,805
Deferred revenue	733,997	(324,459)
Student housing deposits	529,090	61,346
Deposits held in trust for others	28,746	23,301
Contributions restricted for plant, loans and long-term investment	(4,350,524)	(8,370,194)
Net Cash Flows from Operating Activities	13,631,330	7,093,035
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments, net	1,022,160	(3,645,720)
Deposits to trustee reserve accounts	91,707	10,562,901
Purchases of property, plant and equipment, and construction in progress	(13,237,603)	(14,338,156)
Disbursements of loans to students	(92,000)	(177,000)
Repayments of loans from students	169,119	123,277
Net Cash Flows from Investing Activities	(12,046,617)	(7,474,698)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of principal on indebtedness	(1,183,817)	(934,687)
Increase in refundable governmental grants, net	18,669	22,412
Payments to annuitants	(812,284)	(804,971)
Increase in annuities payable from new gifts	17,657	81,032
Contributions received restricted for plant, loans and long-term investment	5,069,965	6,773,806
Net Cash Flows from Financing Activities	3,110,190	5,137,592
Change in Cash and Cash Equivalents	4,694,903	4,755,929
CASH AND CASH EQUIVALENTS - Beginning of Year	7,553,714	2,797,785
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 12,248,617	$ 7,553,714

See accompanying notes to consolidated financial statements.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

California Lutheran University is an institution of higher education affiliated with the Evangelical Lutheran Church in America. The consolidated financial statements include the accounts of California Lutheran University and California Lutheran Educational Foundation, an affiliated entity (the "University"). All significant intercompany balances and transactions have been eliminated in consolidation.

The accounting policies of the University reflect practices common to colleges and universities and conform to accounting principles generally accepted in the United States of America. The more significant accounting policies are summarized below:

Net Asset Classifications - These financial statements, which are presented on the accrual basis of accounting, have been prepared to focus on the University as a whole. For the purpose of financial reporting, the University classifies resources into three net asset categories pursuant to any donor-imposed restrictions and applicable law. Accordingly, the net assets of the University are classified in the accompanying financial statements in the categories that follow:

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the University. Generally, the donors of these assets permit the University to use all or part of the income earned on related investments for general or specific purposes.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that will be met by action of the University and/or the passage of time.

Unrestricted Net Assets - Net assets not subject to donor-imposed stipulations.

Revenue Recognition - Revenues from sources other than contributions are generally reported as increases in unrestricted net assets. Expenses are reported as decreases in unrestricted net assets. Income earned on donor restricted funds is initially classified as temporarily restricted net assets and is reclassified as unrestricted net assets when expenses are incurred for their intended purpose.

Contributions, including unconditional promises to give, are recognized as revenues in the period received and are reported as increases in the appropriate categories of net assets in accordance with donor restrictions. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restriction between the applicable classes of net assets. Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues of the temporarily restricted net asset class, and a release to unrestricted net assets is made to reflect the expiration of such restrictions. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

Contributions of property and equipment without donor stipulations concerning the use of such long-lived assets are reported as unrestricted revenues. Contributions of cash or other assets to be used to acquire property and equipment are reported as temporarily restricted revenues; the restrictions are considered to be released at the time such long-lived assets are placed in service.

In the absence of donor stipulations or law to the contrary, losses on the investments of a donor-restricted endowment fund reduce temporarily restricted net assets to the extent that donor-imposed temporary restrictions on net appreciation of the fund have not been met before the loss occurs. Any remaining loss reduces unrestricted net assets. If losses reduce the assets of a donor-restricted endowment fund below the level required by the donor stipulations or law, gains that restore the fair value of the assets of the endowment fund to the required level are classified as increases in unrestricted net assets. Losses on investments of endowment funds created by a board designation of unrestricted funds are classified as reductions in unrestricted net assets.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Tuition and Fees and Auxiliary Revenues - Tuition revenue is recognized in the period the classes are provided. Revenue from auxiliary enterprises is recognized when goods or services are provided. Financial assistance in the form of scholarships and grants that cover a portion of tuition, living and other costs is reflected as a reduction of tuition and fees revenues.

Certain revenue related to summer courses and programs is deferred and recognized as revenue in the same period expenses are recognized. Students are generally billed for courses and programs prior to the start of the course or program.

Cash Equivalents - The University considers all highly liquid investments, except those held for long-term investment, with maturities of three months or less when purchased to be cash equivalents.

Student Accounts Receivable - Student accounts receivable are carried at the unpaid balance of the original amount billed to students less an estimate made for doubtful accounts based on historical experience and management's evaluation of receivables at the end of each year. Student accounts are written off when deemed uncollectible. Recoveries of student accounts previously written off are recorded when received. A student account receivable is considered to be delinquent if any portion of the balance is outstanding for more than 90 days after the billing date. Interest is charged on past due accounts receivable. Receivables are generally unsecured.

Deposits with Trustee - Deposits with trustee include amounts restricted for debt service as required by the trust indenture as well as bond construction funds for property additions. In prior years, the University sold its future interest to earnings on certain trusteed bond reserves. Revenue from such sale had been deferred and recognized as income is earned.

Debt Acquisition Costs - Costs of bond issuance are deferred and amortized on a straight-line basis over the term of the related indebtedness. Amortization of $89,192 and $88,765 was recorded for the years ended May 31, 2011 and 2010, respectively.

Property Plant and Equipment - Physical plant assets are stated at cost, less accumulated depreciation, computed on a straight-line basis over the estimated useful lives of buildings and improvements (10 - 40 years) and equipment (3 - 10 years). Library books or materials are depreciated over 20 years. Normal repair and maintenance expenses are charged to operations as incurred. The University capitalizes physical plant additions in excess of $10,000.

Asset Retirement Obligations - Asset retirement obligations are estimated costs and obligations associated with the retirement of long-lived assets. These liabilities were initially recorded at fair value and the related asset retirement costs were recorded as decreases in unrestricted net assets. Asset retirement costs are subsequently accreted over the useful lives of the related assets. The asset retirement obligation of $754,256 and $967,636 at May 31, 2011 and 2010, respectively, is included in accrued liabilities on the statement of financial position. The asset retirement obligation was reduced in 2011 due to the demolishment of two and renovation of one building on campus and the reduction of the cost per square foot for remaining buildings from increased competition between remedial vendors. Therefore, there is no accretion expense in 2011 and $31,069 was recorded for the year ended May 31, 2010.

Grants to Specified Students - Amounts received from state and federal agencies designated for the benefit of specified students are considered agency transactions and, therefore, are not reflected as revenues and expenses of the University. The amount of such grants approximated $4,063,000 and $2,905,000, respectively, during the year ended May 31, 2011. Corresponding amounts for the year ended May 31, 2010 were $3,213,000 and $2,179,000, respectively.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government Grants Refundable - Funds provided by the United States Government under the Federal Perkins Loan Program are loaned to qualified students and may be reloaned after collections. These funds are ultimately refundable to the government and are included as liabilities in the statements of financial position. Revenues from other government grants are recognized as they are earned in accordance with the agreement. Any funding received before it is earned is recorded as a refundable advance. Expenses incurred before cash is received are recorded as receivables.

Deferred Revenue - The University has deferred revenue/advances from vendors related to its bookstore and food service operations. The amounts deferred approximate $171,500 and $132,500 for the years ended May 31, 2011 and 2010, respectively.

Unemployment Compensation - The University has elected to pay unemployment compensation claims as they arise.

Pension Plans - The University has certain contributory pension plans for academic and nonacademic personnel. Contributions for employees are determined on a percentage of annual compensation. The cost of the retirement plans is paid currently and approximated $2,689,000 and $2,570,000 for the years ended May 31, 2011 and 2010, respectively.

Fund-Raising and Advertising Expenses - Fund-raising expenses approximated $1,984,000 and $2,574,000 for the years ended May 31, 2011 and 2010, respectively. Advertising costs approximated $919,000 and $920,000 for the years ended May 31, 2011 and 2010, respectively, and are expensed as incurred.

Functional Allocation of Expenses - The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain expenses have been allocated among the programs and supporting services benefited.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions 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.

Income Tax Status - The Internal Revenue Service has determined that the University and Foundation are exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code as non-profit organizations. It is also exempt from state income taxes. However, any unrelated business income may be subject to taxation.

The University follows the accounting standards for contingencies in evaluating uncertain tax positions. This guidance prescribes recognition threshold principles for the financial statement recognition of tax positions taken or expected to be taken on a tax return that are not certain to be realized. No liability has been recognized by the University for uncertain tax positions as of May 31, 2011. The University's tax returns are subject to review and examination by federal and state authorities. The tax returns for the current year as well as fiscal years 2008 to 2010 are open to examination by federal and state authorities.

Impairment of Long-Lived Assets - The University reviews long-lived assets, including property and equipment and intangibles, for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss would be recognized when the estimated future cash flows from the use of the asset are less than the carrying amount of that asset. To date, there have been no such losses.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reclassifications - Certain amounts appearing in the 2010 financial statements have been reclassified to conform with the 2011 presentation. The reclassifications have no effect on reported amounts of total net assets or change in total net assets. Reclassifications of net assets from unrestricted to temporarily and permanently restricted net assets occurred to show donor designations.

Fair Value of Financial Instruments - The carrying amounts of cash and cash equivalents, accounts receivable and other receivables, accounts payable and accrued liabilities, deposits and deferred revenue approximate fair value because of the short-term maturity of these financial instruments.

A reasonable estimate of the fair value of the receivables from students under government loan programs and grants refundable to the government for student loans could not be made because the notes receivable are not saleable and can only be assigned to the U.S. government or its designee. The fair value of receivables under institutional loan programs approximates carrying value.

The carrying amounts of the actuarial liability for trusts and annuities payable are based on life expectancies, quoted market prices, and the applicable discount rates in effect at the time the agreements were received by the University. The carrying amounts of long-term debt approximates fair value because these financial instruments bear interest at rates which approximate current market rates for notes with similar maturities and credit quality.

Contributions of assets other than cash are recorded at their estimated fair value at the date of the gift. Estimates of fair value involve assumptions and estimation methods that are uncertain and, therefore, the estimates could differ from actual results.

Cash surrender value of life insurance policies is included in investments and is stated at cost.

The fair values for investments and other financial instruments recorded at fair value on a recurring basis are included in Note 2.

NOTE 2 - FAIR VALUE MEASUREMENTS

The University follows the FASB guidance on fair value measurements. Fair value is defined in the guidance as the exchange price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the assets or liability in an orderly transaction between market participants at the measurement date. Under this guidance, a three-level hierarchy is used for fair value measurements which is based on the transparency of information, such as the pricing source, used in the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1 - Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. This includes quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data.

Level 3 - Inputs are unobservable for the asset or liability. Unobservable inputs reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The following table summarizes financial instruments measured at fair value on a recurring basis by classification within the fair value hierarchy as of May 31, 2011:

	Total	Level 1	Level 2	Level 3
ASSETS				
Deposits with trustee	$ 23,100,360	$ 23,100,360	$ -	$ -
Funds held in trust by others	389,224	-	-	389,224
Investments				
Cash and short term investments	4,509,741	1,886,465	2,623,276	-
Equity securities				
Equity securities - U.S.	15,067,995	15,067,995	-	-
Equity securities - Non-U.S.	11,043,480	11,043,480	-	-
Total equity securities	26,111,475	26,111,475	-	-
Corporate and government bonds	27,431,538	27,431,538	-	
Hedge funds	1,132,362	-	-	1,132,362
Partnerships				
Private equity	2,810,854	-	-	2,810,854
Venture capital	702,245	-	-	702,245
Real estate	738,913	-	-	738,913
Total partnerships	4,252,012	-	-	4,252,012
Total Investments	63,437,128	55,429,478	2,623,276	5,384,374
Total Assets	$ 86,926,712	$ 78,529,838	$ 2,623,276	$ 5,773,598
LIABILITIES				
Interest rate exchange agreement	$ 140,592	$ -	$ 140,592	$ -

NOTE 2 - FAIR VALUE MEASUREMENTS (CONTINUED)

The following table summarizes financial instruments measured at fair value on a recurring basis by classification within the fair value hierarchy as of May 31, 2010:

	Total	Level 1	Level 2	Level 3
ASSETS				
Deposits with trustee	$ 23,240,135	$ 23,240,135	$ -	$ -
Funds held in trust by others	232,571	-	-	232,571
Investments				
Cash and short term investments	6,313,528	-	6,313,528	-
Equity securities				
Equity securities - U.S.	11,327,287	11,327,287	-	-
Equity securities - Non-U.S.	8,601,798	8,601,798	-	-
Total equity securities	19,929,085	19,929,085	-	-
Corporate and government bonds	25,646,150	25,646,150	-	-
Hedge funds	2,018,797	-	-	2,018,797
Partnerships				
Private equity	2,597,852	-	-	2,597,852
Venture capital	555,058	-	-	555,058
Real estate	494,966	-	-	494,966
Total partnerships	3,647,876	-	-	3,647,876
Total Investments	57,555,436	45,575,235	6,313,528	5,666,673
Total Assets	$ 81,028,142	$ 68,815,370	$ 6,313,528	$ 5,899,244

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying Statement of Financial Position, as well as general classification of such instruments pursuant to the valuation hierarchy.

Cash and short-term investments - The fair value of cash equivalents, primarily consisting of intercompany amounts due to the endowment, with readily determinable market values is classified at Level 1. The fair value of short-term investments consist primarily of money market funds, is classified as Level 2 as these funds are not traded on a regular basis.

Equity securities - Equity securities that are actively traded on a securities exchange are valued based on quoted prices from the applicable exchange, and to the extent valuation adjustments are not applied to these securities, they are categorized as Level 1.

Corporate and government bonds - Investments in corporate and government bonds (fixed income securities) are comprised of U.S. Treasury notes, mortgage backed securities, municipal bonds and corporate bonds and notes. They are classified as Level 1 as they trade with sufficient frequency and volume to enable the University to obtain pricing information on an ongoing basis.

Hedge funds - An aggressively managed portfolio of investments that uses advanced investment strategies such as leveraged, long, short and derivative positions in both domestic and international markets with the goal of generating high returns (either in an absolute sense or over a specified market benchmark). Legally, hedge funds are most often set up as private investment partnerships that are open to a limited number of investors and require a large initial minimum investment. Investments in hedge funds are illiquid as they often require investors to keep their money in the fund for at least one year and are therefore classified as Level 3.

NOTE 2 - FAIR VALUE MEASUREMENTS (CONTINUED)

Partnerships - Private equity, venture capital, and real estate investments in partnerships are carried at estimated fair value as determined in good faith by the investment advisor. The methods used to estimate the fair value of partnership investments include (1) the market approach (whereby fair value is derived by reference to observable valuation measures for comparable companies or assets) adjusted by the investment advisor for differences between the investment and the referenced comparables), (2) the income approach, and (3) cost for a period of time after an acquisition (whereby such amount is determined by the investment advisor to be the best indicator of fair value). These valuation methodologies involve a significant degree of judgment and are categorized as Level 3.

Deposits with trustee - The deposits held with trustee are in the form of government bonds that have readily available market rates on a daily basis. Therefore, they are classified as Level 1.

Funds held in trust by others - The University's beneficial interest in irrevocable split interest agreements held or controlled by a third party are classified as Level 3 as the fair values are based on significant unobservable inputs. Since the University has an irrevocable right to receive the income earned from the trust's assets, the fair value of the University's beneficial interest is estimated to approximate the fair value of the trusts' assets. The fair values are measured at the present value of the future distributions the University expects to receive over the term of the agreements.

Interest rate exchange agreement - Interest rate exchange agreement is classified as Level 2 as the fair value is based on observable inputs to a valuation model (interest rates, credit spreads, etc.) which take into account the present value of the estimated future cash flows and credit valuation adjustments.

While the University believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The following table presents a reconciliation of the statement of financial position amounts for financial instruments measured at fair value on a recurring basis using significant unobservable inputs (level 3) for the year ended May 31, 2011:

	Partnerships				Funds Held	
	Private Equity	Venture Capital	Real Estate	Hedge Funds	in Trust by Others	Total
Balance at June 1, 2010	$ 2,111,286	$ 1,041,625	$ 494,966	$ 2,018,796	$ 232,571	$ 5,899,244
Total realized gain/loss	754	2,988	-	9,021	23,102	35,865
Total unrealized gain/loss	425,794	103,129	148,947	69,958	161,953	909,781
Purchases and sales, net	(213,546)	41,069	95,000	(603,213)	(47,156)	(727,846)
Adjustment	486,566	(486,566)	-	-	18,754	18,754
Transfers out of Level 3	-	-	-	(362,200)	-	(362,200)
Balance at May 31, 2011	$ 2,810,854	$ 702,245	$ 738,913	$ 1,132,362	$ 389,224	$ 5,773,598

The amount of total gains or losses for the period included in change in net assets attributable to the change in unrealized gains or losses relating to financial instruments still held at May 31, 2011	$ 898,456

Adjustments are the result of implementing ASU 2010-06. To improve fair value disclosures, the University increased the level of disaggregation of investment classes, resulting in reclassification of some funds.

Transfer out of Level 3 is due to liquidation of the underlying hedge fund.

The University's policy is to recognize transfers in and transfers out as of the last day of the reporting period.

NOTE 2 - FAIR VALUE MEASUREMENTS (CONTINUED)

The following table presents a reconciliation of the statement of financial position amounts for financial instruments measured at fair value on a recurring basis using significant unobservable inputs (level 3) for the year ended May 31, 2010:

	Partnerships					
	Private Equity	Venture Capital	Real Estate	Hedge Funds	Funds Held in Trust by Others	Total
Balance at June 1, 2009	$ 1,270,166	$ 976,988	$ 304,775	$ 2,745,341	$ 243,952	$ 5,541,222
Total unrealized gain/loss	306,005	(140,669)	(47,279)	621,031	(11,381)	727,707
Purchases and sales, net	535,115	205,306	237,470	(1,347,576)	-	(369,685)
Balance at May 31, 2010	$ 2,111,286	$ 1,041,625	$ 494,966	$ 2,018,796	$ 232,571	$ 5,899,244

The amount of total gains or losses for the period included in change in net assets attributable to the change in unrealized gains or losses relating to financial instruments still held at May 31, 2010 — $ 804,410

The fair value of certain funds has been estimated using the Net Asset Value ("NAV") as reported by the management of the fund. FASB guidance allows for the use of the NAV as a "practical expedient" estimating the fair value of alternative investments. NAV reported by each alternative investment fund is used as a practical expedient to estimate the fair value of the University's interest in the fund. Investments are categorized as Level 2 instruments when the University has the ability to redeem its investment in the entity at the NAV per share in the near term. If the University does not know when it will have the ability to redeem its investment or it does not have the ability to redeem its investment at NAV per share in the near term, the investments are categorized as Level 3 instruments The University generally considers a redemption period of 90 days or less to be considered near term.

The following table lists the investments in alternative investments by major category:

	Fair Value at May 31, 2011	Unfunded Commitments	Redemption Frequency	Redemption Notice Period	Investee Strategies and Other Restrictions
Hedge Funds	$ 1,132,362	$ -	Quarterly	45-60 days	[1]
Partnerships					
Private Equity	2,810,853	2,000,000	Not permitted	n/a	[2]
Venture Capital	702,245	500,000	Not permitted	n/a	[2]
Real Estate	738,913	200,000	Not permitted	n/a	[2]
Balance at May 31, 2010	$ 5,384,373	$ 2,700,000			

[1] Absolute total return in long/short equity and multi-strategy hedge funds.
[2] Venture and buyout, in the U.S. and international.

NOTE 3 - INVESTMENTS

Investments in the various funds as of May 31 are as follows:

	2011	2010
ENDOWMENT INVESTMENTS		
Cash and short-term investments	$ 3,500,938	$ 5,203,684
Equity securities		
Equity securities - U.S.	12,141,260	8,400,000
Equity securities - Non-U.S.	10,357,929	7,953,963
Funds held by others	19,700	-
Corporate and government bonds	22,631,048	20,384,058
Hedge funds	1,132,362	2,018,797
Partnerships		
Private equity	2,810,853	2,597,852
Venture capital	702,245	555,058
Real estate	738,913	494,966
Real estate and other - cost	1,104,203	830,502
Cash surrender value of life insurance - at cost	1,472,177	1,234,088
	$ 56,611,628	$ 49,672,968
DEFERRED GIFT INVESTMENTS		
Corporate and government bonds	$ 2,317,010	$ 2,546,450
Real estate - cost	-	33,026
	$ 2,317,010	$ 2,579,476
CALIFORNIA LUTHERAN EDUCATIONAL FOUNDATION (CLEF) INVESTMENTS		
Cash and short-term investments	$ 1,008,803	$ 1,109,844
Equity securities		
Equity securities - U.S.	2,926,735	2,927,287
Equity securities - Non-U.S.	685,551	647,835
Corporate and government bonds	2,483,481	2,715,642
Commodities - cost	97,517	-
	$ 7,202,087	$ 7,400,608
OTHER INVESTMENTS		
Certificates of deposit - at cost	$ 381,589	$ 654,798
Cash surrender value of life insurance - at cost	328,180	303,442
	$ 709,769	$ 958,240
TOTAL INVESTMENTS	$ 66,840,494	$ 60,611,292
Investments at fair value	$ 63,437,128	$ 57,555,436
Investment funds held by others at fair value	19,700	-
Investments at cost	3,383,666	3,055,856
TOTAL INVESTMENTS	$ 66,840,494	$ 60,611,292

CLEF investments are held principally for funding deferred gift arrangements.

Endowment investment income is comprised of $781,930 interest and dividends and $6,545,388 realized and unrealized gains or (losses) for 2011. Corresponding amounts for 2010 are $1,026,544 and $4,009,638, respectively. Interest and dividends are net of custodian and investment advisory fees of $274,251 for 2011 and $67,933 for 2010.

NOTE 3 - INVESTMENTS (CONTINUED)

The University's investment strategy incorporates a diversified asset allocation approach and maintains, within defined limits, exposure to the world equity, fixed-income, commodities, real estate and private equity markets. This strategy provides the University with a long-term asset mix that is most likely to meet the University's long-term return goals with the appropriate level of risk.

The alternative investments were entered into to diversify the University's portfolio, to provide predictability in overall earnings and to provide market-neutral holdings. The University 's management, the finance and investment committee of the Board of Regents and the University 's external investment consultants regularly review performance reports provided by the general partners of these investments. The University's external investment consultants attend meetings of the various general partners in order to evaluate the risk associated with these investments. In addition, the University monitors its portfolio mix to ensure that it is in accordance with Board policy.

Investments, in general, are subject to various risks, including credit, interest and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

NOTE 4 - CREDIT QUALITY OF STUDENT LOANS RECEIVABLE

The University issues uncollateralized loans to students based on financial need. Student loans are funded through Federal government loan programs or institutional resources. Student loans receivable are carried at the amount of unpaid principal less an estimate for doubtful accounts. Allowances for doubtful accounts are established based on prior collection experience and current economic factors which, in management's judgment, could influence the ability of loan recipients to repay the amounts per the loan terms. At May 31, 2011 and 2010 student loans represented .69% and .78% of total assets, respectively.

At May 31, student loans consisted of the following:

	2011	2010
Federal government programs	$ 1,733,909	$ 1,822,238
Institutional programs	10,266	11,172
	1,744,175	1,833,410
Less allowance for doubtful accounts	(85,000)	(85,000)
Student loans receivable, net	$ 1,659,175	$ 1,748,410

Funds advanced by the Federal government of $1.6 million and $1.5 million at May 31, 2011 and 2010, respectively, are ultimately refundable to the government and are classified as liabilities in the statement of financial position.

After a student is no longer enrolled in an institution of higher education and after a grace period, interest is charged on student loans receivable and is recognized as it is charged. Student loans receivable through the loan programs are considered to be past due if a payment is not made within 30 days of the payment due date, at which time, late charges are charged and recognized. The Federal Perkins Loan Program receivables may be assigned to the U.S. Department of Education. Students may be granted a deferment, forbearance, or cancellation of their student loan receivable based on eligibility requirements defined by the U.S. Department of Education.

NOTE 4 - CREDIT QUALITY OF STUDENT LOANS RECEIVABLE (CONTINUED)

At May 31, the following amounts were past due under student loan programs:

May 31,	1-60 days	60-90 days	90+ days	Total
2011	$ 144,492	$ 25,233	$ 86,653	$ 256,378
2010	123,770	58,576	44,933	227,279

NOTE 5 - CONTRIBUTIONS RECEIVABLE

Contributions receivable include the following unconditional promises to give at May 31:

	2011	2010
Temporarily restricted - plant projects	$ 6,351,807	$ 7,227,340
Less: Present value discount	(542,269)	(698,361)
Contributions Receivable, net	$ 5,809,538	$ 6,528,979
Amounts due in:		
Less than one year	$ 3,876,420	
One to five years	1,933,118	
	$ 5,809,538	

Gross unconditional promises to give have been reduced by an allowance for unfulfilled pledges of $189,333 and $1,215,814 at May 31, 2011 and 2010, respectively. An interest rate of 5% was used at May 31, 2011 and 2010 to discount net unconditional promises to give.

Approximately $2.7 million and $4.0 million of the contributions receivable at May 31, 2011 and 2010, respectively, are due from members of the governing board of the University.

NOTE 6 - CONSTRUCTION IN PROGRESS

At May 31, 2011, the following major projects were in progress:

	Estimated Total Cost	Cost to Date	Funding Plan
William Rolland Football Stadium	$ 9,200,000	$ 2,799,000	Donations/operations
Other projects		525,000	Donations/operations
		$ 3,324,000	

NOTE 7 - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following at May 31:

	2011	2010
Land	$ 946,660	$ 946,660
Improvements other than buildings	35,628,863	35,500,654
Buildings	120,754,154	106,849,986
Equipment	11,354,846	10,318,582
Library books or materials	3,423,204	3,282,498
	172,107,727	156,898,380
Less: Accumulated depreciation	(51,978,113)	(48,194,863)
Property, plant and equipment, net	$ 120,129,614	$ 108,703,517

Depreciation expense totaled $5,964,490 and $5,430,345 for the years ended May 31, 2011 and 2010, respectively.

NOTE 8 - RESTRICTIONS AND LIMITATIONS ON NET ASSET BALANCES

Permanently restricted net assets consist of the following at May 31:

	2011	2010
Endowment funds	$ 30,531,839	$ 29,207,847
Student loan funds	304,278	304,278
Annuity, life income and similar funds	2,140,660	2,237,520
Perpetual trusts held by others	195,165	32,088
	$ 33,171,942	$ 31,781,733

Temporarily restricted net assets consist of the following at May 31:

	2011	2010
Gifts and other unexpended revenues and gains available for:		
Scholarships, instruction and other departmental support	$ 13,405,403	$ 8,182,376
Acquisition of buildings and equipment	4,270,158	11,294,434
Term endowment fund	-	263,229
	17,675,561	19,740,039
Annuity, life income and similar funds	1,086,437	329,720
	$ 18,761,998	$ 20,069,759

The University's unrestricted net assets were allocated as follows at May 31:

	2011	2010
Operations	$ 21,144,451	$ 13,649,883
Long-term investment	15,618,211	14,864,899
Plant	58,051,625	49,568,253
	$ 94,814,287	$ 78,083,035

NOTE 9 - NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from temporary donor restrictions during the years ended May 31, 2011 and 2010 by incurring expenses satisfying the restricted purposes or by occurrence of events specified by the donors as follows:

	2011	2010
Scholarships, instruction and other departmental support	$ 1,877,292	$ 2,115,441
Maturity of term endowment	305,141	
Acquisition of buildings and equipment	10,766,894	2,207,515
	$ 12,949,327	$ 4,322,956

NOTE 10 - LONG-TERM DEBT

The University had the following long-term debt outstanding at May 31:

	2011	2010
Notes payable	$ 4,068,750	$ 4,332,567
California Educational Facilities Authority (CEFA)		
Revenue Bonds		
1999 Series	1,880,000	1,980,000
2004 Series A	5,465,000	5,465,000
2004 Series C	25,375,000	25,835,000
2008 Series	37,700,000	38,060,000
	$ 74,488,750	$ 75,672,567

The University had 14 bank notes outstanding at May 31, 2010 totaling $4,231,343, which were secured by individual homes. The notes carried interest rates between 4.92% and 6.01%, and required total monthly payments of $46,757. On February 1, 2011 these notes were consolidated and replaced by a single note totaling $4,200,000, carrying a LIBOR based variable interest rate, which at May 31, 2011 was 1.69% and maturing February 1, 2019. The bank note is secured by 14 individual homes. The required monthly payment ranges between $48,000 and $50,000. The University entered into an interest rate exchange agreement related to this note to fix the interest rate at 4.18%. See Note 18. The University also had one unsecured note outstanding at May 31, 2010, payable to an outside party, totaling $101,224 that matured on July 14, 2010.

The University has loans outstanding with CEFA as follows:

The 1999 Series bonds were issued to finance a portion of the costs for a new residence hall. The 1999 Series bonds have interest rates varying from 5.125% to 5.25%, and mature annually on April 1, 2012 through April 1, 2024 in amounts from $105,000 to $195,000. The CEFA 99 indenture is secured by real property.

The 2004A bonds were issued to finance the cost of the construction and equipping of certain educational facilities, and paying certain costs of issuance of the Series 2004A bonds. The bonds were issued November 16, 2004 and will mature October 1, 2029. Interest on the bonds is payable monthly and no principal payments are required until the maturity date. The bonds bear interest at a variable (weekly reset) rate, which at May 31, 2011 was .28%, with an average rate of .25% for the 2011 fiscal year. In addition to the variable rate interest, the bonds incur an effective letter of credit fee of 85 basis points on the letter credit amount outstanding and a remarketing fee equal to 0.125 basis points. The bonds are secured by an irrevocable direct-pay-letter of credit to the trustee. The letter of credit expires September 14, 2011. The letter of credit is secured by certain real property and a pledge on future revenue.

NOTE 10 - LONG-TERM DEBT (CONTINUED)

The 2004C bonds were issued to finance construction activities, refunding the Institution's outstanding Revenue Bonds 1993 Series B, advance refunding a portion of the Institution's outstanding Revenue Bonds 1998 Series A, refinancing the April 1, 2004 principal payment with respect to CEFA Revenue Bonds 1999 Series B, paying certain costs of issuance of the Series 2004C bonds, and funding a reserve fund for the Series 2004C bonds. The 2004C bonds include one serial series of bonds and three term bonds. The 2004C serial series bonds have interest rates varying from 3.50% to 4.75% and mature annually on October 1, 2010 to October 1, 2016 in amounts from $580,000 to $710,000. The term bonds have interest rates varying from 4.50% to 5.00% and mature from October 1, 2019 to October 1, 2029. The bonds are secured by certain real property and a pledge on future revenue.

The 2008 bonds were issued to finance construction activities and the refunding of the Institution's outstanding Revenue Bonds 2004 Series B. The 2008 bonds include one serial series bond and three term bonds. The 2008 serial series bonds have interest rates varying from 3.50% to 4.5% and mature annually on October 1, 2011 to October 1, 2016 in amounts from $370,000 to $460,000. The term bonds have interest rates varying from 5.25% to 5.75% and mature from October 1, 2021 to October 1, 2038. The bonds are secured by certain real property and a pledge on future revenue.

The University is required to maintain debt service reserve funds of approximately $7,147,000, which were partially funded from bond proceeds. The bond agreements require that certain financial and other covenants be maintained. As of May 31, 2011, the University is in compliance with these covenants.

Annual maturities of long-term debt for each of the five years subsequent to May 31, 2011 approximate $1,580,000, $1,630,000, $1,665,000, $1,710,000 and $1,770,000, respectively.

NOTE 11 - OPERATING LEASES

The University has operating leases for offsite student facilities and one vehicle. Rental expense associated with these leases totaled approximately $980,000 and $496,000 for the years ended May 31, 2011 and 2010, respectively.

Future minimum lease payments on leases in effect on May 31, 2011, are as follows:

	Operating Leases
Years Ended May 31,	
2012	$ 735,000
2013	789,000
2014	807,000
2015	756,000
2016	657,000
Total future minimum lease payments	$ 3,744,000

NOTE 12 - SHORT-TERM CREDIT ARRANGEMENTS

The University has a secured revolving line of credit in the amount of $4,000,000, with interest at either the LIBOR interest rate plus 1.5% per year or the prime rate minus .374% determined by the University at the time of borrowing. There was no balance outstanding as of May 31, 2011 and 2010, respectively. The revolving credit line is secured by residential real estate.

NOTE 13 - DEFERRED GIFT AGREEMENTS

The University and the Foundation have arrangements with donors classified as charitable remainder trusts and charitable gift annuities. In general, under these arrangements the University receives a gift from a donor and agrees to pay the donor stipulated amounts over the remaining life of the donor. The arrangement may cover one or more lives. The University invests and administers the related assets and makes distributions to the beneficiaries as required. When the agreement reaches the end of its term, remaining assets are retained by the University as unrestricted, temporarily restricted or permanently restricted net assets, or in some instances, distributed to third-party beneficiaries.

When a gift is received under one of these arrangements, it is split into the amount representing the actuarial present value of the future distributions to the donor and the remaining gift value to be retained for the benefit of the University or third-party beneficiaries. The actuarial liability is adjusted annually using actuarial tables appropriate for the type of arrangement, number of lives covered and age and sex characteristics of the donor. The University used historical interest rates varying from 5% to 10% in making the calculations.

The University and Foundation received $15,226 and $116,319 of gift value relating to deferred gift agreements for the years ended May 31, 2011 and 2010, respectively.

NOTE 14 - OTHER CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the University to concentrations of credit risk consist principally of cash, short-term investments, marketable securities and other investments, accounts, notes and mortgages receivable. Cash, cash equivalents and investments are concentrated in a limited number of financial institutions and amounts in excess of FDIC and similar coverages are subject to the usual risks of balances in excess of those limits. Marketable securities, consisting of both debt and equity instruments, are generally placed in a variety of managed funds administered by different investment managers in order to reduce credit risk. Concentrations of credit risk with respect to the notes and mortgages are limited due to the University holding a secured position in these agreements. Student notes and receivables and other receivables are due from a variety of sources concentrated primarily in the western United States. In addition, the University's students receive a substantial amount of support from state and federal student financial assistance programs which are subject to audit by governmental agencies. A significant reduction in the level of this support, if this were to occur, could have an adverse effect on the University's programs and activities. Contributions receivable for 2011 are principally due from two major contributors.

NOTE 15 - COMMITMENTS AND CONTINGENCIES

The University has commitments of approximately $4,200,000 on various contracts for professional services related to campus construction projects.

NOTE 16 - SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	2011	2010
Interest paid, net of interest capitalized of $19,529 and $85,313 for 2011 and 2010, respectively	$ 3,478,191	$ 3,410,695
Noncash investing and financing activities		
Retirement of fully depreciated assets	2,188,374	32,015
Refinancing home mortgages	4,200,000	-
Construction in progress included in accounts payable	878,147	1,017,599

NOTE 17 - ENDOWMENT

The University's endowment consists of approximately 300 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the governing board to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the governing board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law - The University's governing board has interpreted the California enacted version of Uniform Prudent Management of Institutional Funds Act (UPMIFA) as allowing the University to appropriate for expenditure or accumulate so much of an endowment fund as the University determines is prudent for the uses, benefits, purposes and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument. Unless stated otherwise in the gift instrument, the assets in an endowment fund shall be donor-restricted assets until appropriated for expenditure by the Board of Regents. See Note 1 for further information on net asset classifications.

The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the University considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the University and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the University
7. The investment policies of the University

Endowment net asset composition by type of fund consists of the following as of May 31, 2011:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (73,653)	$ 9,689,210	$ 30,531,839	$ 40,452,537
Board-designated endowment funds	16,464,232	-	-	16,159,091
Total endowment net assets	$ 16,390,579	$ 9,689,210	$ 30,531,839	$ 56,611,628

NOTE 17 - ENDOWMENT (CONTINUED)

Changes in endowment net assets for the year ended May 31, 2011 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, May 31, 2010	$ 14,403,168	$ 6,061,953	$ 29,207,847	$ 49,672,968
Investment return				
Investment income, net of fees of $274,251	34,984	746,946	-	781,930
Net appreciation - realized and unrealized	2,199,212	4,346,176	-	6,545,388
Total investment return	2,234,196	5,093,122	-	7,327,318
Contributions	500	-	664,655	665,155
Changes in cash surrender values	194,457	-	56,277	250,734
Appropriation of endowment assets for expenditure	(194,350)	(1,777,170)	-	(1,971,520)
Other changes:				
Reclassifications	(310,655)	304,155	6,500	-
Transfers	63,263	7,150	596,560	666,973
Endowment net assets, May 31, 2011	$ 16,390,579	$ 9,689,210	$ 30,531,839	$ 56,611,628

Endowment net asset composition by type of fund consists of the following as of May 31, 2010:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (694,737)	$ 6,061,953	$ 29,207,847	$ 34,575,063
Board-designated endowment funds	15,097,905	-	-	15,097,905
Total endowment net assets	$ 14,403,168	$ 6,061,953	$ 29,207,847	$ 49,672,968

Changes in endowment net assets for the year ended May 31, 2010 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, May 31, 2009	$ 11,299,438	$ 4,083,382	$ 26,381,957	$ 41,764,777
Investment return				
Investment income, net of fees of $67,933	584,984	441,560	-	1,026,544
Net appreciation - realized and unrealized	2,277,737	1,677,072	54,829	4,009,638
Total investment return	2,862,721	2,118,632	54,829	5,036,182
Contributions	500	-	2,335,134	2,335,634
Other sources	8,628	-	-	8,628
Appropriation of endowment assets for expenditure	(618,700)	(1,071,208)	-	(1,689,908)
Other changes:				
Reclassifications	(1,333,101)	899,457	433,644	-
Transfers	2,183,682	31,690	2,283	2,217,655
Endowment net assets, May 31, 2010	$ 14,403,168	$ 6,061,953	$ 29,207,847	$ 49,672,968

NOTE 17 - ENDOWMENT (CONTINUED)

Funds with Deficiencies - From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the University to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were approximately $74,000 and $695,000 as of May 31, 2011 and 2010, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the governing board. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets.

Return Objectives and Risk Parameters - The University has adopted investment and spending policies that attempt to be prudent and provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the University must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, the long-term minimum need of the endowment is to exceed a total return averaging at least the annual spending rate plus inflation, fees and costs. Actual returns in any year may vary from this amount. The long-term objective is to build endowment value over time by achieving incremental returns in excess of need while appropriately managing portfolio risk.

Strategies Employed for Achieving 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). The University targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy - The University has a policy of appropriating for distribution each year 5% of its endowment fund's average fair value at May 31 for the prior three years preceding the fiscal year in which the distribution is planned. In establishing this policy, the University considered the long-term expected return on its endowment. Accordingly, over the long term, the University expects the current spending policy to allow its endowment to grow at an average of 4% annually. This is consistent with the University's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

NOTE 18 - DERIVATIVE INSTRUMENTS

The University uses an interest rate exchange agreement as part of its risk management strategy to manage exposure to fluctuations in interest rates and to manage the overall cost of its debt. Interest rate exchange agreements are used to manage identified and approved exposures and are not used for speculative purposes. The interest rate exchange agreement is recognized as either an asset or liability on the statements of financial position and is measured at fair value. Interest rate exchange agreements are often held for the life of the strategy, but may reflect significant interim unrealized gains or losses depending on the change in value since the inception of the contract. All unrealized and realized gain or loss from the interest rate exchange agreement is reflected in the statement of activities.

NOTE 18 - DERIVATIVE INSTRUMENTS (CONTINUED)

The University entered into an interest rate exchange agreement during 2011. The interest rate exchange agreement has an original notional amount of $4,200,000. The agreement fixes the Universities one month LIBOR interest rate at 4.18% through the February 1, 2019 expiration date.

The interest rate exchange agreement between the University and a third party (counterparty) provides for periodic exchange of payments between the parties based on changes in a defined index and a fixed rate and include counterparty credit risk. Counterparty credit risk is the risk that contractual obligations of the counterparties will not be fulfilled. Concentrations of credit risk relate to groups of counterparties that have similar economic or industry characteristics that could cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. Counterparty credit risk is managed by requiring high credit standards for the University's counterparties. The counterparties to these contracts are financial institutions that carry investment-grade credit ratings. The interest rate exchange agreement contains collateral provisions applicable to both parties to mitigate credit risk. The University does not anticipate non-performance by its counterparty.

Derivative instruments are reported in the statements of financial position at fair value as of May 31, 2011 as follows:

Derivatives Not Designated as Hedging Instruments	Liabilities Derivative Statement of Financial Position Location	Fair Value 2011	Fair Value 2010
Interest exchange agreement	Interest rate exchange agreement liability	$ 140,592	$ -

The effect of derivative instruments is reported in the statements of activities as follows:

Derivatives Not Designated as Hedging Instruments	Location of Loss on Derivatives Recognized in the Statement of Changes in Net Assets	Amount of Loss on Derivatives Recognized in the Statement of Changes in Net Assets 2011	2010
Interest exchange agreement	Unrealized loss on interest rate exchange agreement	$ (140,592)	$ -

NOTE 19 - SUBSEQUENT EVENTS

The University has evaluated subsequent events through September 20, 2011, which is the date that the financial statements were issued.