MOSSADAMS

REPORT OF INDEPENDENT AUDITORS AND
FINANCIAL STATEMENTS

FOR

UNIVERSITY OF SAN DIEGO

June 30, 2017 and 2016

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Report of Independent Auditors

To the Board of Trustees
University of San Diego

Report on Financial Statements

We have audited the accompanying financial statements of the University of San Diego, which comprise the statements of financial position as of June 30, 2017 and 2016, the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University of San Diego as of June 30, 2017 and 2016, and the changes in its net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Moss Adams LLP

San Diego, California
October 18, 2017

University of San Diego
Statements of Financial Position
June 30, 2017 and 2016
(In Thousands)

	June 30, 2017	June 30, 2016
Assets		
Cash and cash equivalents	$ 9,179	$ 9,327
Short-term investments	112,764	99,050
Accounts and loans receivable, net	46,074	45,630
Other assets	5,819	7,063
Contributions receivable, net	26,190	27,886
Property, plant, and equipment, net	501,231	497,971
Long-term investments	585,334	516,766
Total assets	$ 1,286,591	$ 1,203,693
Liabilities		
Accounts payable and accrued expenses	$ 50,214	$ 47,489
Deferred tuition revenue	18,238	15,068
Other liabilities	32,107	44,253
Bonds payable	157,481	160,750
Refundable advances	12,213	12,409
Total liabilities	270,253	279,969
Net Assets		
Unrestricted	686,196	613,797
Temporarily restricted	145,905	129,929
Permanently restricted	184,237	179,998
Total net assets	1,016,338	923,724
Total liabilities and net assets	$ 1,286,591	$ 1,203,693

See accompanying notes.

University of San Diego
Statement of Activities
Year Ended June 30, 2017
(In Thousands)

	Year Ended June 30, 2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING				
Revenues and other additions:				
Tuition and fees	$ 351,214	$ -	$ -	$ 351,214
Less: tuition discounts and financial aid	(109,800)	-	-	(109,800)
Net tuition and fees	241,414	-	-	241,414
Sales and services of auxiliary enterprises	48,608	-	-	48,608
Grants and contracts	16,574	-	-	16,574
Contributions	5,456	10,573	3,710	19,739
Investment return distributed	7,134	9,652	-	16,786
Investment income	562	-	-	562
Other revenue	6,045	-	303	6,348
Total revenues	325,793	20,225	4,013	350,031
Net assets released from restrictions for operations	22,644	(22,644)	-	-
Total revenues and other additions	348,437	(2,419)	4,013	350,031
Expenses:				
Educational programs	180,276	-	-	180,276
Research	3,685	-	-	3,685
Athletics and recreation	16,678	-	-	16,678
Public service	8,126	-	-	8,126
Auxiliary enterprise expenses	43,010	-	-	43,010
Management and general expenses	69,386	-	-	69,386
Total expenses	321,161	-	-	321,161
Increase (decrease) in net assets from operations	27,276	(2,419)	4,013	28,870
NON-OPERATING				
Investment income	38,208	31,119	1	69,328
Less: investment return distributed	(7,134)	(9,652)	-	(16,786)
Total non-operating investment return	31,074	21,467	1	52,542
Contributions for non-operating activities	-	(144)	-	(144)
Unrealized gain on interest rate swap	11,346	-	-	11,346
Net assets released from restriction - non-operating	1,627	(1,627)	-	-
Other non-operating changes	1,076	(1,301)	225	-
Increase in net assets from non-operating activities	45,123	18,395	226	63,744
INCREASE IN NET ASSETS	72,399	15,976	4,239	92,614
NET ASSETS				
Beginning of year	613,797	129,929	179,998	923,724
End of year	$ 686,196	$ 145,905	$ 184,237	$ 1,016,338

See accompanying notes.

University of San Diego
Statement of Activities
Year Ended June 30, 2016
(In Thousands)

	Year Ended June 30, 2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING				
Revenues and other additions:				
Tuition and fees	$ 335,268	$ -	$ -	$ 335,268
Less: tuition discounts and financial aid	(103,949)	-	-	(103,949)
Net tuition and fees	231,319	-	-	231,319
Sales and services of auxiliary enterprises	47,612	-	-	47,612
Grants and contracts	16,716	-	-	16,716
Contributions	4,632	18,584	3,543	26,759
Investment return distributed	6,188	8,979	-	15,167
Investment income	914	-	-	914
Other revenue	5,023	-	290	5,313
Total revenues	312,404	27,563	3,833	343,800
Net assets released from restrictions for operations	19,080	(19,080)	-	-
Total revenues and other additions	331,484	8,483	3,833	343,800
Expenses:				
Educational programs	171,373	-	-	171,373
Research	4,387	-	-	4,387
Athletics and recreation	16,085	-	-	16,085
Public service	8,083	-	-	8,083
Auxiliary enterprise expenses	42,959	-	-	42,959
Management and general expenses	67,811	-	-	67,811
Total expenses	310,698	-	-	310,698
Increase in net assets from operations	20,786	8,483	3,833	33,102
NON-OPERATING				
Investment income	(10,619)	(9,133)	25	(19,727)
Less: investment return distributed	(6,188)	(8,979)	-	(15,167)
Total non-operating investment return	(16,807)	(18,112)	25	(34,894)
Contributions for non-operating activities	-	4,348	-	4,348
Unrealized loss on interest rate swap	(13,684)	-	-	(13,684)
Net assets released from restriction - non-operating	7,841	(7,841)	-	-
Other non-operating changes	491	(1,189)	257	(441)
(Decrease) increase in net assets from non-operating activities	(22,159)	(22,794)	282	(44,671)
(DECREASE) INCREASE IN NET ASSETS	(1,373)	(14,311)	4,115	(11,569)
NET ASSETS				
Beginning of year	615,170	144,240	175,883	935,293
End of year	$ 613,797	$ 129,929	$ 179,998	$ 923,724

University of San Diego
Statements of Cash Flows
Years Ended June 30, 2017 And 2016
(In Thousands)

	Years Ended June 30, 2017	Years Ended June 30, 2016
OPERATING ACTIVITIES		
Changes in net assets	$ 92,614	$ (11,569)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and net amortization	16,979	16,968
Net amortization of bond premiums/discount and debt issuance cost	(139)	(139)
Net provision for losses on receivables	(15)	752
Net realized and unrealized (gain) loss on long-term investments	(63,233)	24,008
Net unrealized (gain) loss on interest rate swap	(11,346)	13,684
Loss on debt refunding	-	441
Contributions restricted for long-term investments	(4,111)	(3,087)
Contributions restricted for investment in property, plant, and equipment	144	(4,348)
Proceeds from sale of donated securities	378	571
Changes in operating assets and liabilities:		
Accounts and loans receivable	(1,102)	(1,384)
Other assets	1,244	(753)
Contributions receivable	1,696	2,510
Accounts payable and accrued expenses	1,744	(3,338)
Deferred tuition revenue	3,170	1,079
Other liabilities	(800)	(1,079)
Net cash provided by operating activities	37,223	34,407
INVESTING ACTIVITIES		
Proceeds from maturities/sales of investments	305,454	267,116
Purchases of investments	(325,609)	(290,011)
Purchase of property, plant, and equipment	(19,258)	(23,031)
Net cash used in investing activities	(39,413)	(45,926)
FINANCING ACTIVITIES		
Principal payments on bonds payable	(3,129)	(3,159)
Debt issuance costs	-	(288)
Advances for government loan funds	(196)	(133)
Net disbursements of student loans	673	311
Contributions restricted for long-term investments	4,111	3,087
Contributions restricted for investment in property, plant, and equipment	(144)	4,348
Proceeds from sale of securities restricted for long-term investment or assets	727	3,829
Net cash provided by financing activities	2,042	7,904
DECREASE IN CASH AND CASH EQUIVALENTS	(148)	(3,615)
CASH AND CASH EQUIVALENTS		
Beginning of year	9,327	12,942
End of year	$ 9,179	$ 9,327
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	$ 7,449	$ 7,689
SUPPLEMENTAL DISCLOSURES OF NON-CASH FINANCING ACTIVITIES		
Proceeds from bond issuance	$ -	$ 91,750
Payments on bond refunding	$ -	$ (91,750)

See accompanying notes.

Note 1 – Nature of Operation and Significant Accounting Policies

The University of San Diego (the "University") is an independent Catholic university chartered in 1949 under the nonprofit public benefit corporation law and is governed by its Board of Trustees (the "Board"). In 1972, the San Diego College for Women merged with the University of San Diego College for Men forming the University. The University includes a College of Arts and Sciences and six professional schools: the School of Business Administration; the Shiley-Marcos School of Engineering; the School of Leadership and Education Sciences; the School of Law; the Philip Y. Hahn School of Nursing and Health Science; and the Joan B. Kroc School of Peace Studies.

Financial statement presentation – The University classifies its net assets as unrestricted, temporarily restricted, and permanently restricted based upon the following criteria:

- Unrestricted net assets represent expendable funds available for operations that are not otherwise limited by donor restrictions.

- Temporarily restricted net assets consist of contributed funds subject to specific donor-imposed restrictions, which are contingent upon a specific performance of a future event or a specific passage of time before the University may spend the funds.

- Permanently restricted net assets are subject to irrevocable donor restrictions requiring that the assets be maintained in perpetuity, primarily for generating investment income to fund current operations.

Revenue recognition

- *Tuition and fees* – Student tuition and fees are recorded as revenue in the year during which the related academic services are rendered. Student tuition and fees received in advance of services to be rendered are recorded as deferred tuition revenue.

- *Contributions* – Contributions of cash, unconditional pledges, and other assets are recorded as revenue in the period received and are classified as permanently restricted, temporarily restricted, or unrestricted based on donor stipulations. Contributions whose restrictions are met in the same period they are received are recorded as revenue in temporarily restricted net assets and as net assets released from restrictions. Unconditional pledges with terms greater than one year are initially recorded at fair value based on their estimated future cash flows. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Gifts of assets other than cash are recorded at their estimated fair value.

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

Note 1 – Nature of Operation and Significant Accounting Policies (continued)

- *Sales and services of auxiliary enterprises* – Revenues from supporting services, such as student housing, dining facilities, and the bookstore, are recorded at the time of delivery of a product or service. Amounts received in advance of services to be rendered are recorded as deferred revenue.

Operating activities – Operating revenue and expenses consist of those items attributable to the University's academic programs, research conducted by the academic departments, and auxiliary operations. The amount computed under the endowment spending policy of the investment pool and all investment income earned by investing cash in excess of daily requirements are used to support current operations. Contribution revenues with restrictions for long-lived assets are recorded under non-operating activities.

Cash and cash equivalents – The University considers liquid investments, which fund the daily operating activities of the University and have a maturity of three months or less at the date of purchase, to be cash equivalents. The University is required to keep separate bank accounts for certain funding received including the Perkins Student Loan Fund Program. Balances in these accounts totaled approximately $2,141,000 and $1,691,000 as of June 30, 2017 and 2016, respectively.

Concentration of credit risk – Financial instruments that potentially subject the University to concentrations of credit risk consist principally of cash deposits at financial institutions and investments in marketable securities. At times, balances in the University's cash and investment accounts exceed Federal Deposit Insurance Corporation ("FDIC") or Securities Investors Protection Corporation ("SIPC") limits.

Student loans and accounts 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.

Accounts and loans receivable – Receivables are recorded net of an allowance for doubtful accounts. The allowance is based on historical experience and management's evaluation of receivables at the end of each year.

Note 1 – Nature of Operation and Significant Accounting Policies (continued)

Interest rate swap – In conjunction with the University's November 2005 issuance of variable-rate demand revenue bonds, refunded in July 2015 with the issuance of the 2015 variable rate revenue bonds, the University entered into an interest-rate swap agreement with a financial institution counterparty. The purpose of this agreement is to swap the variable rate on underlying debt for a fixed rate of 3.513 percent for a period of 40 years. The University entered into the agreement to manage the risk associated with the cash flows attributable to interest payments on the debt and does not use this instrument for speculative purposes. The instrument's fair value and changes therein are reported in the University's unrestricted net assets. The value of the swap instrument represents the estimated receivable of or payable by the University to cancel the agreement at the reporting date, which is based on option pricing models that consider risks and market factors.

The unrealized gain (loss) for the change in the swap agreement's fair value was approximately $11,346,000 and ($13,684,000) for the years ended June 30, 2017 and 2016, respectively. The value of the swap instrument is a payable of approximately $27,131,000 and $38,477,000 recorded in other liabilities at June 30, 2017 and 2016, respectively.

Refundable advances – The University serves as an agent for the federal government in administering the Perkins Student Loan Fund Program and the Nursing Faculty Loan Program. Amounts received in conjunction with these programs are recorded as refundable advances in the statements of financial position. Disbursements made to students in accordance with the federal program requirements are recorded as student loans receivable. Included in accounts and loans receivable at June 30, 2017 and 2016 are student loans receivable of approximately $14,694,000 and $15,156,000, respectively, related to these programs.

Functional expense classifications – Expenses, including certain allocated expenses, are reported in major categories: educational programs, research, athletics and recreation, public service, auxiliary enterprise expenses, and management and general expenses. Auxiliary enterprises include, among others, student residence and board, food services, and the bookstore.

Management and general expenses consist of general institutional support including expenses for fundraising. The University incurred fundraising expenses in the amount of approximately $8,401,000 during the year ended June 30, 2017, including approximately $6,074,000 in personnel expenses and approximately $2,327,000 in other expenses. The University incurred fundraising expenses in the amount of approximately $8,320,000 during the year ended June 30, 2016, including approximately $5,887,000 in personnel expenses and approximately $2,433,000 in other expenses. These expenses were incurred to support campaigns promoting charitable contributions including gifts directed toward the University's endowment and capital projects.

Note 1 – Nature of Operation and Significant Accounting Policies (continued)

Earnings on permanently restricted endowments – Assets of the University's individual endowment funds (the "Funds") are generally maintained in pooled investment portfolios. Interest, dividends, and gains and losses in the investment pool are allocated on a monthly-average basis to the Funds in proportion to each Fund's relative share in the investment pool, and are recorded in the Fund which is authorized to expend the earnings. The earnings on permanently restricted endowments are primarily recorded as temporarily restricted, in accordance with donor stipulations. In certain unique situations, a Fund's earnings may be recorded as permanently restricted or unrestricted, in accordance with donor stipulations. Accumulated unspent earnings are reinvested and retained in the Funds to protect them against inflation over the long term.

Expiration of donor-imposed restrictions – The expiration of a donor-imposed restriction on net assets is recognized in the period in which the restriction expires and at the time the related resources are reclassified to unrestricted net assets. Net assets are released from donor restrictions by incurring expenses satisfying the restricted purposes, by occurrences of events specified by the donors, or by the change of restrictions specified by the donors. Restrictions on gifts of cash or other assets received for the acquisition of long-lived assets are released when the long-lived assets are placed into service.

Fair value of financial instruments – Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The University classifies certain of its assets and liabilities based upon established fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 - Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the University has the ability to access at the measurement date;

Level 2 - Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly; and

Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The University adopted the Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2015-07, *Disclosures for Investment in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, during the year ended June 30, 2016. Under the new guidance, investments measured using the net asset value per share (or its equivalent) practical expedient are not classified in the fair value hierarchy. The following describes these investments:

Note 1 – Nature of Operation and Significant Accounting Policies (continued)

Assets held at Net Asset Value ("NAV") – Valuations based on fair value using the NAV per share (or its equivalent) of such investment funds as a practical expedient for fair value. The University has estimated the fair value of these funds by using the NAV provided by the fund's managers.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The categorization of assets and liabilities within the hierarchy is based upon the pricing transparency and does not necessarily correspond to the University's perceived risk of the assets and liabilities.

The University has various processes and controls in place to ensure that fair value is reasonably estimated. The Finance Office, under supervision of the Vice President for Finance and Chief Financial Officer, sets the valuation policies and is responsible for the determination of fair value. Securities classified within Level 3 investments are based on valuations provided by external investment managers. The Investment Committee, in conjunction with the external investment advisors, monitors and analyzes the valuations of the investments four times during the academic year. The Investment Committee reports to the Board of Trustees. The valuations consider variables such as financial performance of the investment, recent sales prices of investments, and other pertinent information.

Although the University uses its best judgment in determining the fair value of financial instruments, there are inherent limitations in any methodology. Future confirming events could affect the estimates of fair value and could be material to the financial statements. These events could also affect the amount realized upon liquidation of the instruments.

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 such changes could materially affect the amounts reported in the financial statements.

Use of estimates – The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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 taxes – The University is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code ("IRC") and Section 23701(d) of the California Revenue and Taxation Code.

The University has no unrecognized tax benefits or liabilities as of June 30, 2017 and 2016. The University files an exempt organization return and applicable unrelated business income tax return in the U.S. federal jurisdiction and with the California Franchise Tax Board.

Note 1 – Nature of Operation and Significant Accounting Policies (continued)

Recently issued accounting standards – In February 2016, FASB issued ASU 2016-02, *Leases (Topic 842)*. This guidance requires the recognition of rights and obligations arising from lease contracts, including existing and new arrangements, as assets and liabilities on the statement of financial position. The guidance is effective for annual reporting periods beginning after December 15, 2018. Management is currently evaluating the impact this will have on the University's future financial statements.

In August 2016, FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statement for Not-for-Profit Entities*. This guidance revises the not-for-profit reporting model. The guidance streamlines and clarifies net asset reporting, provides flexibility regarding the definition of reported operating subtotals, and imposes new reporting requirements related to expenses. The guidance is effective for fiscal years beginning after December 15, 2017. Management is currently evaluating the impact this will have on the University's future financial statements.

In November 2016, *FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash*. The amendments in ASU 2016-18 are intended to minimize diversity in the classification and presentation of changes in restricted cash on the statement of cash flows. This ASU provides guidance to an organization's management on how to classify and present changes in amounts generally described as restricted cash or restricted cash equivalents on the statement of cash flows and the related footnote disclosures. Management is currently evaluating the impact this will have on the University's future financial statements.

The University adopted the FASB ASU 2015-03, *Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs* during the year ended June 30, 2017. Prior to the adoption of the ASU, the University's policy was to present these loan origination fees in other assets on the statements of financial position, net of accumulated amortization. As required by the new guidance, the amendments were applied retrospectively to the year ended June 30, 2016.

The University adopted FASB ASU 2014-15, *Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosures of Uncertainties about an Entity's Ability to Continue as a Going Concern* during the year ended June 30, 2017. ASU 2014-15 defines management's responsibility to evaluate whether there is substantial doubt about an organization's ability to continue as a going concern and to provide related footnote disclosures. The adoption of this ASU did not have a material impact on the accompanying financial statements.

Note 2 – Investments

Investments are reported at their fair values. The University follows a spending rule for its endowment funds, which provides for regular increases in spending while preserving the long-term purchasing power of the endowment. Earnings available for spending are shown in operating income, and the balance as non-operating income.

The University pools certain investments from the various net asset categories. Interest, dividends, and gains and losses in the investment pool are all distributed to the appropriate net asset category. Distributions are based upon the carrying value of the various net asset categories' assets when pooled; adjusted for purchases or gifts specifically identified to a given net asset category.

Investments consist of the following at June 30 (in thousands):

	2017	2016
Cash and cash equivalents	$ 43,718	$ 44,001
Equities	226	203
Fixed income	58,319	51,584
Real estate	13,818	13,993
Pooled investments	582,017	506,035
Total	$ 698,098	$ 615,816

Pooled investments consist of the following at June 30 (in thousands):

	2017	2016
Cash and cash equivalents	$ 18,909	$ 11,062
Fixed income	73,264	70,728
Equities	276,544	230,802
Real assets	34,248	33,648
Marketable alternatives	102,956	95,118
Non-marketable alternatives	76,096	64,677
Total	$ 582,017	$ 506,035

Note 2 – Investments (continued)

Investment return – The following schedule summarizes investment income and its classification in the statements of activities for the years ended June 30, 2017 and 2016 (in thousands):

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividends	$ 5,645	$ 3,243	$ 1	$ 8,889
Less: management fees	(1,168)	(1,064)	-	(2,232)
Net interest and dividends	4,477	2,179	1	6,657
Realized gain, net	7,610	6,670	-	14,280
Unrealized gain, net	26,683	22,270	-	48,953
Total	$ 38,770	$ 31,119	$ 1	$ 69,890

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividends	$ 4,765	$ 2,660	$ 9	$ 7,434
Less: management fees	(1,174)	(1,065)	-	(2,239)
Net interest and dividends	3,591	1,595	9	5,195
Realized gain, net	2,951	3,454	16	6,421
Unrealized loss, net	(16,247)	(14,182)	-	(30,429)
Total	$ (9,705)	$ (9,133)	$ 25	$ (18,813)

Note 3 – Fair Value of Financial Instruments

The University uses the following methods and assumptions to estimate the fair value for its assets and liabilities measured and carried at fair value in the financial statements:

Fixed-income securities – Investments in fixed-income securities are comprised of U.S. Treasury notes, mortgage-backed securities, municipal and corporate bonds, as well as global investment-grade debt securities denominated primarily in developed countries around the world. Fair value is based on quoted market prices for those traded with sufficient frequency.

Equities funds – Investments in equities funds include investments in securities traded in active markets for which closing prices are readily available. Investments in equities funds also include investments in index funds, which fair values may be based on the NAV of the fund.

Note 3 – Fair Value of Financial Instruments (continued)

Real estate – Investment in real estate includes various residential and commercial properties in San Diego, California. The University has estimated the real estate's fair value by using market comparables and third-party appraisals.

Real assets funds – Investments in real assets funds include funds, and funds of funds, which invest in various real assets. Fair value is based on quoted market prices for those traded on active markets. Several of these investments are either funds not actively traded in a public market or investments in limited partnerships, in which fair value is determined by the NAV of the funds as determined in good faith by the fund manager or general partner using the NAV as the practical expedient.

Alternative investments – Investments in alternatives include funds of funds, hedge funds, and private equity funds for which no active market exists. The University has estimated the investments' fair value by using the NAV provided by the funds' managers.

The University generally records alternative investments at NAV provided by the fund's managers, as the managers have the greatest insight into the investments of their fund and the related industry. The University assesses the NAV and takes into consideration events such as suspended redemptions, imposition of gates, restructuring, secondary sales, and investor defaults to determine if an adjustment is necessary. Additionally, asset holdings are reviewed within the investment manager's audited financial statements, as are interim financial statements and fund manager communications, for purposes of assessing valuation. The University's determination of fair value is based upon the best available information provided by the investment manager and may incorporate management assumptions and best estimates after considering a variety of internal and external factors. Such value generally represents the University's proportionate share of the partner's capital of the investment partnerships as reported by their general partners. For these investments, the University has determined, through its monitoring activities, to rely on the fair value as determined by the investment managers.

Beneficial interest in trust held by third parties – The University's beneficial interest in trust assets are valued at fair value using the quoted market prices of the underlying securities and discounted when appropriate. If a quoted market price is not available, fair value is determined using the net present value of future distributions the University expects to receive over the term of the agreements. See Note 5.

Interest-rate swap agreement – The fair value of the interest-rate swap agreement is the estimated amount the University would receive or pay to terminate the agreement at the reporting date, taking into consideration the current interest rates and creditworthiness of counterparties.

Note 3 – Fair Value of Financial Instruments (continued)

The following table discloses by level the fair value hierarchy for assets and liabilities at June 30, 2017:

	(In Thousands)				
	Level 1	Level 2	Level 3	Assets Held at Net Asset Value (or Equivalent)	2017 Total
Assets					
Investment in:					
Cash and cash equivalents	$ 62,627	$ -	$ -	$ -	$ 62,627
Fixed-income securities:					
Domestic debt securities	24,524	-	-	51,626	76,150
Government debt securities	15,149	-	-	-	15,149
Domestic and global securities	29,117	-	-	-	29,117
Global debt securities	-	-	-	11,167	11,167
Equities funds:					
Domestic equity securities	35,244	-	-	85,092	120,336
International equity securities	21,218	-	-	62,868	84,086
Emerging market equity securities	24,384	-	-	23,475	47,859
Inflation sensitive equities	24,489	-	-	-	24,489
Real estate	-	13,818	-	-	13,818
Real assets funds	25,728	-	-	8,520	34,248
Marketable alternatives:					
Absolute return hedge funds	-	-	-	37,883	37,883
Long/short hedge funds	-	-	-	44,138	44,138
Diversifying hedge funds	-	-	-	20,935	20,935
Non-marketable alternatives:					
Venture capital	-	-	-	19,995	19,995
Domestic private equity	-	-	-	14,584	14,584
International private equity	-	-	-	9,324	9,324
Distressed debt	-	-	-	9,624	9,624
Energy and resources	-	-	-	13,852	13,852
Real estate	-	-	-	8,717	8,717
	262,480	13,818	-	421,800	698,098
Beneficial interest in trust held by third parties	-	-	5,413	-	5,413
Total fair value of assets	$ 262,480	$ 13,818	$ 5,413	$ 421,800	$ 703,511
Liabilities					
Interest-rate swap agreement	$ -	$ 27,131	$ -	$ -	$ 27,131

Note 3 – Fair Value of Financial Instruments (continued)

The following table discloses by level the fair value hierarchy for assets and liabilities at June 30, 2016:

	(In Thousands)				
	Level 1	Level 2	Level 3	Assets Held at Net Asset Value (or Equivalent)	2016 Total
Assets					
Investment in:					
Cash and cash equivalents	$ 55,063	$ -	$ -	$ -	$ 55,063
Fixed-income securities:					
Domestic debt securities	31,397	-	-	45,410	76,807
Government debt securities	15,185	-	-	-	15,185
Domestic and global securities	26,438	-	-	3,882	30,320
Equities funds:					
Domestic equity securities	23,019	-	-	77,063	100,082
International equity securities	25,779	-	-	42,713	68,492
Emerging market equity securities	20,018	-	-	18,883	38,901
Inflation sensitive equities	23,530	-	-	-	23,530
Real estate	-	13,993	-	-	13,993
Real assets funds	25,180	-	-	8,468	33,648
Marketable alternatives:					
Absolute return hedge funds	-	-	-	53,405	53,405
Long/short hedge funds	-	-	-	41,713	41,713
Non-marketable alternatives:					
Venture capital	-	-	-	14,368	14,368
Domestic private equity	-	-	-	10,725	10,725
International private equity	-	-	-	11,074	11,074
Distressed debt	-	-	-	8,369	8,369
Energy and resources	-	-	-	11,116	11,116
Real estate	-	-	-	9,025	9,025
	245,609	13,993	-	356,214	615,816
Beneficial interest in trust held by third parties	-	-	5,398	-	5,398
Total fair value of assets	$ 245,609	$ 13,993	$ 5,398	$ 356,214	$ 621,214
Liabilities					
Interest-rate swap agreement	$ -	$ 38,477	$ -	$ -	$ 38,477

The following table discloses the summary of changes in the fair value of the beneficial interest in trust held by third parties as of June 30:

	2017	2016
Balance, beginning of year	$ 5,398	$ 5,897
Actuarial adjustment	15	(499)
Balance, end of year	$ 5,413	$ 5,398

The University recognizes all significant transfers between Levels 1, 2, and 3 at fair value at the end of the reporting period.

Note 3 – Fair Value of Financial Instruments (continued)

Net appreciation (depreciation) on investments and the actuarial adjustment for the beneficial interest in trusts in the above tables are reflected in the line "Investment income" and "Contributions," respectively, in the statements of activities.

The following summarizes the investments by major class where NAV or its equivalent is used to measure fair value as of June 30, 2017:

	(In Thousands)				
	Fair Value	**Unfunded Commitments**	**Redemption Frequency**	**Redemption Notice Period**	**Notes**
Fixed-income securities:					
Domestic debt securities	$ 51,626	N/A	1 – 90 days, with exception to those under gate limitations	1 – 60 days, with exception to those under gate limitations	(a)
Global debt securities	$ 11,167	N/A	Daily	Daily	(a)
Equities funds:					
Domestic equity securities	$ 85,092	N/A	1 – 90 days, with exception to those under gate limitations	1 – 60 days, with exception to those under gate limitations	(a)
International equity securities	$ 62,868	N/A	1 – 90 days, with exception to those under gate limitations	1 – 90 days, with exception to those under gate limitations	(a)
Emerging market equity securities	$ 23,475	N/A	1 – 30 days, with exception to those under gate limitations	1 – 60 days, with exception to those under gate limitations	(a)
Real assets funds:	$ 8,520	N/A	Monthly	15 days	(b)
Marketable alternatives:					
Absolute return hedge funds	$ 37,883	N/A	3 – 36 months	60 – 90 days	(c)
Long/short hedge funds	$ 44,138	N/A	3 – 36 months	45 – 90 days	(d)
Diversifying hedge funds	$ 20,935	N/A	1 – 30 days	1 – 60 days	(e)

(continued)

Note 3 – Fair Value of Financial Instruments (continued)

	(In Thousands)				
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period	Notes
Non-marketable alternatives:					
Venture capital	$ 19,995	$ 18,754	N/A – Redeemable upon maturity	N/A	(f)
Domestic private equity	$ 14,584	$ 16,399	N/A – Redeemable upon maturity	N/A	(g)
International private equity	$ 9,324	$ 11,007	N/A – Redeemable upon maturity	N/A	(g)
Distressed debt	$ 9,624	$ 4,030	N/A – Redeemable upon maturity	N/A	(h)
Energy and resources	$ 13,852	$ 13,275	N/A – Redeemable upon maturity	N/A	(i)
Real estate	$ 8,717	$ 9,756	N/A – Redeemable upon maturity	N/A	(j)

(a) This category includes funds that consist of assets from several accounts which are blended together. These funds invest in U.S. debt and equities, international equities, as well as emerging markets. Less than 1 percent of the investments are not redeemable until liquidation by the fund manager.

(b) This category includes an investment in one real assets fund. Underlying investments are primarily real estate holdings in the public property markets throughout North America, Europe, and Asia Pacific.

(c) This category includes investments in various types of hedge funds using a total of 11 different fund managers. These funds are invested in absolute return strategies, including diversified arbitrage, event-driven arbitrage, and distressed funds. Less than 10 percent of the investments are not redeemable until liquidation by the fund manager. The remaining values are generally redeemable within one year, subject to certain gate limitations.

(d) This category includes investments in various types of hedge funds using a total of 8 different fund managers. These funds are invested in long and short strategies in both U.S. and global common stocks. Less than 1 percent of the investments are not redeemable until liquidation by the fund manager. The remaining values are generally redeemable within one year, subject to certain gate limitations.

(e) This category includes investments in various types of hedge funds using a total of 6 different fund managers. These funds are invested in diversifying strategies with lower correlation to equity markets including global macro and trend-following funds. Values are generally redeemable within sixty days, subject to certain gate limitations.

(f) This category includes investments in venture capital funds and funds of venture capital funds. Underlying investments are primarily private investments in early-stage companies.

(g) This category includes investments in private equity funds and private equity funds of funds in the U.S. and outside of the U.S. whose mandates include leveraged buyouts and growth equity investments in companies.

(h) This category includes investments in distressed debt funds and funds of funds. Underlying investments are primarily securities of companies or government entities that are already in default, under bankruptcy protection, or in distress and heading towards such a condition.

(i) This category includes funds, and a fund of funds, which invest in natural resources, commodities, and private energy in the U.S. and outside the U.S.

(j) This category includes funds, and a fund of funds, which invest in private real estate in the U.S. and outside the U.S.

Note 4 – Accounts and Loans Receivable

The following is a summary of receivables at June 30 (in thousands):

	2017	2016
Student loans receivable	$ 37,978	$ 38,651
Other receivables	7,039	7,180
Student accounts receivable for tuition and fees	7,394	6,151
	52,411	51,982
Less allowance for doubtful accounts	(6,337)	(6,352)
Total	$ 46,074	$ 45,630

The University's student loans receivable consist of institutional and federally-sponsored loans due from both current and former students. Student loans and allowance for student loan doubtful accounts at June 30 are as follows (in thousands):

	2017	2016
Institutional loans	$ 23,284	$ 23,495
Federally-sponsored loans	14,694	15,156
	37,978	38,651
Less allowance for doubtful accounts	(5,823)	(5,972)
Total	$ 32,155	$ 32,679

Institutional loans are funded by donor funds restricted for student loan purposes. Federally-sponsored loans are funded by advances to the University primarily under the Federal Perkins Loan Program (the "Program"). Loans to students under the Program are subject to mandatory interest rates and significant restrictions, and loans issued under the Program can be assigned to the federal government in certain non-repayment situations. In these situations, the federal portion of the loan balance is guaranteed.

Amounts received under the Program are ultimately refundable to the federal government in the event the University no longer participates in the Program and accordingly, have been reported as refundable advances in the statements of financial position. As of October 1, 2017, under Federal law, the University may no longer award new Perkins Loans to undergraduate students and may not make subsequent disbursements to undergraduate students after June 30, 2018. As of July 1, 2017, the University may not disburse Perkins loans to graduate students.

The University provides home mortgage financing assistance to certain faculty. Notes receivable amounting to approximately $2,229,000 and $2,103,000 were outstanding at June 30, 2017 and 2016, respectively, and are collateralized by deeds of trust on properties concentrated in the region surrounding the University. No allowance for doubtful accounts has been recorded against these loans based on their collateralization and nature of the loans as forgivable. So long as there is no event of default as described in the promissory note, loans are forgiven over a five-year period. These amounts are included in other receivables in the summary of receivables tables above.

Note 5 – Contributions Receivable

Contributions receivable are expected to be received in the following periods at June 30 (in thousands):

	2017	2016
Unconditional pledges:		
Less than one year	$ 3,187	$ 3,155
One to five years	3,320	3,750
More than five years	33,423	34,041
	39,930	40,946
Less present value discount (2.4 percent at June 30, 2017 and 1.8 percent at June 30, 2016)	(9,249)	(7,749)
Less allowance for uncollectibility	(9,904)	(10,709)
Net pledges receivable	20,777	22,488
Split-interest agreements - more than five years	5,413	5,398
Total	$ 26,190	$ 27,886

At June 30, 2017 and 2016, an outstanding pledge from the same donor represented 34 percent and 35 percent, respectively, of the University's gross pledges receivable.

Split-interest agreements are comprised of unitrusts and charitable gift annuities. The Finance Office, under the supervision of the Vice President for Finance and Chief Financial Officer, determines the fair value measurement policies and procedures for split-interest agreements. These policies and procedures are reassessed annually to determine if the current valuation techniques are still appropriate. At that time, the unobservable inputs used in the fair value measures are evaluated and adjusted, as necessary, based on current market conditions and other third-party information.

Type	(In Thousands) Fair Value at June 30, 2017	Valuation Technique	Significant Unobservable Inputs	Range of Input Value
Beneficial interests in trust held by third parties	$ 5,413	Discounted Cash Flow	Discount Rate Life Expectancy	2.40% 4 to 35 years

To determine the fair value of unitrust assets, the University determines net present value using a discount percentage and donor data. For charitable gift annuities, the assets are recorded at fair value and a liability is then recorded for the amount of the annuity payments based on the life of the donor. A decrease in the discount rate, a shorter life expectancy, and an increase in the fair value of the underlying assets will increase the recorded fair value of the unitrust; this change in fair value is recorded into revenue for the given year.

Note 6 – Property, Plant, and Equipment

Property, plant, and equipment consist of the following at June 30 (in thousands):

	2017	2016
Land and improvements	$ 51,088	$ 51,028
Buildings and improvements	539,429	535,713
Furniture, equipment, and capital leases	21,511	15,571
Library resources	52,762	52,121
Construction in progress	18,451	11,887
	683,241	666,320
Less accumulated depreciation	(186,072)	(172,411)
	497,169	493,909
Art collection	4,062	4,062
Total	$ 501,231	$ 497,971

Property, plant, and equipment are stated at cost if purchased, or fair value at the date of donation, and are depreciated on a straight-line basis over their appropriate estimated useful lives. The estimated useful lives by asset type are 50 years for buildings; 40 years for building improvements and library resources; 7 years for furniture, equipment, and technology upgrades; and 3 years for capital lease assets. Depreciation expense totaled approximately $15,998,000 and $15,828,000 for the years ended June 30, 2017 and 2016, respectively.

The art collection consists of various pieces of donated and purchased artwork, antique furniture, and artifacts whose value is expected to increase over time and, therefore, is not depreciated.

Note 7 – Employee Benefits

The University has a retirement healthcare program that pays a specified fixed amount to supplement the medical insurance payments made by retirees of the University. The University has internally designated specific investments toward covering this obligation.

The following table sets forth the amount of obligation and assets as of June 30 (in thousands):

	2017	2016
Fair value of designated assets	$ 4,576	$ 3,995
Post-retirement benefit obligation	4,574	3,995
Over funded	$ 2	$ -

The designated assets are included in short-term investments and the benefit obligation is included in accounts payable and accrued expenses in the statements of financial position.

Note 7 – Employee Benefits (continued)

The following table sets forth benefit costs and benefits paid (in thousands):

	2017	2016
Benefit costs	$ 32	$ 42
Benefit payments	171	140
Contributions	579	127
Weighted-average assumptions:		
Discount rate	5.0%	5.0%
Expected return on plan assets	8.0%	8.0%

The University uses an actuarial measurement date of June 30 to determine benefit measurements as of the same date of the current year. The discount rate is the estimated rate at which the obligation for benefits could effectively be settled. The expected return on plan assets reflects the average rate of earnings that the University estimates will be generated on the assets of the plan.

The University has a defined-contribution retirement plan (the “Plan”) which covers all benefit-eligible employees. For the participating employees, the University contributes 12 percent of the employees’ eligible compensation to the Plan. Both the employee and University contributions are employee-directed into various funding vehicles as provided by the plan sponsor. The University’s related expense was approximately $16,391,000 and $16,030,000 for the years ended June 30, 2017 and 2016, respectively.

Note 8 – Lines of Credit

The University has a variable rate line of credit at a bank with a maximum borrowing limit of $8,000,000; of which $2,104,000 of the line has been earmarked for letters of credit related to insurance policies. The renewable line of credit is effective through February 1, 2019 and may be used for working capital purposes. There were no borrowings under this line at June 30, 2017 or 2016.

In 2010, the University obtained a line of credit for funding of a major campus sustainability project. The University converted the balance into a ten-year term loan effective September 30, 2010. The outstanding balance as of June 30, 2017 and 2016 was approximately $3,249,000 and $4,126,000, respectively, and is included in other liabilities in the statements of financial position.

Note 8 – Lines of Credit (continued)

The following table sets forth the University's payment requirements as of June 30, 2017 on the term loan for each of the next five years and thereafter (in thousands):

Years ending June 30,		
2018	$	932
2019		991
2020		1,053
2021		273
Total	$	3,249

Note 9 – Lease Commitments

The University leases various types of equipment under leases that qualify as capital leases. The gross amount of equipment recorded as capital leases was approximately $2,083,000 and $2,097,000 at June 30, 2017 and 2016, respectively. Accumulated amortization for equipment recorded under capital leases was approximately $981,000 and $1,140,000 at June 30, 2017 and 2016, respectively. The amortization expense for these capital leases is included within the University's depreciation expense.

The following table sets forth the University's future minimum lease payments as of June 30, 2017 on capital lease obligations (in thousands):

Years ending June 30,		
2018	$	630
2019		287
2020		91
Total	$	1,008

Note 10 – Bonds Payable

Bonds payable consist of the following at June 30 (in thousands):

	2017	2016
2015 California Municipal Finance Authority Variable Rate Revenue Bonds (the "2015 Bonds"), with interest rates based on market conditions, varying between 0.863 and 1.217 percent during the year ended June 30, 2017, payable on April 1 and October 1 each year, maturing October 2045	$ 90,535	$ 91,155
	90,535	91,155
Unamortized original issue premium	-	-
Unamortized original cost of issuance	(208)	(249)
	90,327	90,906
2012 California Municipal Finance Authority bonds (the "2012 bonds"), with an interest rate of 5 percent, payable on April 1 and October 1 each year, maturing October 2032	9,630	9,630
	9,630	9,630
Unamortized original issue premium	875	933
Unamortized original cost of issuance	(143)	(152)
	10,362	10,411

(continued)

Note 10 – Bonds Payable (continued)

(continued from above)

	2017	2016
2011 A California Municipal Finance Authority bonds (the "2011 A bonds"), with interest rates varying between 5.00 and 5.25 percent, payable on April 1 and October 1 each year, maturing October 2028	17,910	17,910
	17,910	17,910
Unamortized original issue premium	712	775
Unamortized original cost of issuance	(97)	(107)
	18,525	18,578
2011 B California Municipal Finance Authority bonds (the "2011 B bonds"), with interest rates varying between 3 and 5 percent, payable on April 1 and October 1 each year, maturing October 2041	21,165	21,590
	21,165	21,590
Unamortized original issue premium	1,106	1,152
Unamortized original cost of issuance	(151)	(157)
	22,120	22,585
2011 California Educational Facilities Authority revenue bonds (the "2011 bonds"), with interest rates varying between 3 and 5 percent, payable on April 1 and October 1 each year, maturing October 2022	9,560	10,915
	9,560	10,915
Unamortized original issue premium	473	544
Unamortized original cost of issuance	(122)	(140)
	9,911	11,319

(continued)

Note 10 – Bonds Payable (continued)

(continued from above)

	2017	2016
1999 California Educational Facilities Authority revenue bonds (the "1999 bonds"), comprised of capital appreciation bonds with interest rates varying between 4.45 and 5.16 percent, with interest payable at the time they mature:		
Capital appreciation bonds, due October 2009 through October 2024	6,410	7,139
	6,410	7,139
Unamortized original issue discount	(34)	(37)
Unamortized original cost of issuance	(140)	(151)
	6,236	6,951
Total bonds payable	$ 157,481	$ 160,750

The 2015, 2012, 2011 A, 2011 B, 2011, and 1999 bonds are secured by the University's full faith and credit. The bond agreements place certain restrictive covenants on the University with which management believes the University has complied. Bond premiums, discounts and issuance costs are amortized using the straight-line method over the life of the bonds, which approximates the interest method.

In July 2015, the University issued the 2015 Bonds through the California Municipal Financing Authority ("CMFA") and borrowed $91,750,000 from US Bank under a direct purchase option. The 2015 Bonds mature in October 2045 and were issued for the sole purpose of refunding the 2005 Bonds to achieve future debt service savings. The University recorded a $441,000 loss from this refunding in other unrestricted non-operating changes on the statement of activities during the year ended June 30, 2016.

The estimated fair value of the University's bonds was approximately $174,457,000 and $181,328,000 at June 30, 2017 and 2016, respectively. Bonds payable are categorized as Level 2 within the fair value hierarchy discussed in Note 1. For the 2012, 2011 A, 2011 B, 2011, and 1999 bonds, the fair value was derived using estimated market prices on publicly-traded debt. The 2015 bonds are privately placed with a financial institution and management has determined the carrying value as of June 30, 2017 approximates the fair value of these bonds.

Note 10 – Bonds Payable (continued)

The following table sets forth the University's principal payment requirements as of June 30, 2017 on bonds payable for each of the next five years and thereafter (in thousands):

	2015 Bonds	2012 Bonds	2011 A Bonds	2011 B Bonds	2011 Bonds	1999 Bonds	Total
Years ending June 30,							
2018	$ 640	$ -	$ -	$ 445	$ 1,405	$ 692	$ 3,182
2019	665	-	-	475	1,480	652	3,272
2020	685	-	-	500	1,550	619	3,354
2021	710	-	-	525	1,625	588	3,448
2022	125	-	-	550	1,700	747	3,122
Thereafter	87,710	9,630	17,910	18,670	1,800	3,112	138,832
	$ 90,535	$ 9,630	$ 17,910	$ 21,165	$ 9,560	$ 6,410	$ 155,210

Note 11 – Net Assets

Temporarily restricted net assets are available for the following purposes at June 30 (in thousands):

	2017	2016
Educational programs	$ 80,183	$ 69,338
Scholarships	29,843	21,320
Athletics and recreation	627	724
Public service	9,556	8,323
Total program support	120,209	99,705
Management and general support	25,696	30,224
	$ 145,905	$ 129,929

Net assets released from restrictions are as follows:

	2017	2016
Purpose and time restricted	$ 22,644	$ 19,080

Note 11 – Net Assets (continued)

Permanently restricted net assets are restricted to the following purposes at June 30 (in thousands):

	2017	2016
Revolving student loan funds from private sources	$ 23,384	$ 23,079
Investment in perpetuity, the income from which is expendable to support the following programs:		
Educational programs	107,576	105,608
Scholarships	42,939	39,658
Athletics and recreation	229	229
Public service	5,568	5,518
Total program support	156,312	151,013
Management and general support	4,541	5,906
	160,853	156,919
	$ 184,237	$ 179,998

Note 12 – Endowment

The state of California has adopted the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”), the provisions of which apply to endowment funds existing or established after the date of adoption. The corpus of the fund subject to UPMIFA is classified as permanently restricted. The corpus represents the fair value of the original gifts as of the gift date and all subsequent gifts where the donor has indicated that the gift must be retained permanently. The value of assets in excess of original gifts in donor-restricted endowment funds is classified as temporarily restricted net assets until appropriated for expenditure by the University.

Spending policy – Spending is based on a total return strategy, which includes both appreciation and income. The University’s spending allowance rate is 4 percent of the trailing three-year average of the endowment’s fair value. The fair value is the sum of the endowment principle and the accumulated realized and unrealized earnings. In accordance with UPMIFA, the Board may expend so much of an endowment fund as the Board determines to be prudent for the uses and purposes for which the endowment fund is established, consistent with the goal of conserving the long-term purchasing power of the endowment fund.

Investment policy – The overall investment goal for the pooled endowment fund (the “Fund”) is three-fold: (1) to provide a relatively predictable, stable, and constant return sufficient to meet the spending needs of the University; (2) to preserve and enhance the real (inflation adjusted) purchasing power of the Fund through active management; and (3) to increase the Fund through unspent income and gains, appreciated value, gifts, and other appropriate funds.

Note 12 – Endowment (continued)

The return objective for the Fund, measured over a full market cycle, shall be inflation plus 5.5 percent, after the payment of all investment-related fees. In addition, the Fund should experience no greater risk (volatility and variability of return) than that of the market; the market being defined as the Fund's relevant policy benchmarks. It is recognized that the achievement of a long-term, real return in excess of 5.5 percent per year will require a significant allocation to higher returning asset classes. To help moderate the volatility of the portfolio, the Fund will seek to achieve meaningful diversification across asset classes. In addition, the Fund will include significant allocations to asset classes that provide a meaningful hedge against deflation and inflation.

Endowment net assets – The following represents a description of the endowment net asset composition by type of fund as of June 30, 2017 (in thousands):

	2017			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor-restricted endowment fund	$ (13)	$ 109,891	$ 160,853	$ 270,731
Board designated/quasi-endowment funds	232,837	-	-	232,837
Total endowment	$ 232,824	$ 109,891	$ 160,853	$ 503,568

The following represents a description of the endowment net asset composition by type of fund as of June 30, 2016 (in thousands):

	2016			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor-restricted endowment fund	$ (293)	$ 89,754	$ 156,919	$ 246,380
Board designated/quasi-endowment funds	203,417	-	-	203,417
Total endowment	$ 203,124	$ 89,754	$ 156,919	$ 449,797

Note 12 – Endowment (continued)

As a result of market declines, the fair value of certain donor-restricted endowments was less than the historical cost value of such funds by approximately $13,000 and $293,000 at June 30, 2017 and 2016, respectively. These losses have been recorded as reductions in unrestricted net assets. Future gains will be used to restore this deficiency in unrestricted net assets before any net appreciation above the historical cost value of such funds increases temporarily restricted net assets.

The following represents the changes in endowment net assets for the year ended June 30, 2017 (in thousands):

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net endowment assets, beginning of year	$ 203,124	$ 89,754	$ 156,919	$ 449,797
Investment return:				
Investment income, net	1,805	2,174	-	3,979
Net appreciation	25,124	28,918	-	54,042
Total investment return	26,929	31,092	-	58,021
Contribution and other revenue	10	22	3,710	3,742
Appropriation and other expenditures	(6,013)	(9,608)	-	(15,621)
Other changes, including transfers	8,774	(1,369)	224	7,629
Net endowment assets, end of year	$ 232,824	$ 109,891	$ 160,853	$ 503,568

Note 12 – Endowment (continued)

The following represents the changes in endowment net assets for the year ended June 30, 2016 (in thousands):

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net endowment assets, beginning of year	$ 209,229	$ 107,600	$ 153,155	$ 469,984
Investment return:				
Investment income, net	1,602	1,599	9	3,210
Net (depreciation) appreciation	(9,055)	(10,695)	16	(19,734)
Total investment return	(7,453)	(9,096)	25	(16,524)
Contribution and other revenue	15	554	3,543	4,112
Appropriation and other expenditures	(7,245)	(9,304)	-	(16,549)
Other changes, including transfers	8,578	-	196	8,774
Net endowment assets, end of year	$ 203,124	$ 89,754	$ 156,919	$ 449,797

Note 13 – Commitments and Contingencies

Loan programs – The University participates in certain alternative loan programs. No assets or liabilities are recorded by the University for amounts loaned to students under these programs. The University is contingently liable for a portion of the outstanding loans, and the amount of the contingency was approximately $1,281,000 and $1,290,000 at June 30, 2017 and 2016, respectively.

Grants and contracts – Federal grant programs are subject to review by the grantor agencies, which could result in requests for reimbursement to grantor agencies for disallowed expenditures. Management believes it has adhered to the terms of its grants, and any disallowed expenditures resulting from such reviews would not have a material effect on the financial position of the University.

Legal – The University is party to certain legal actions arising in the ordinary course of business. In the opinion of management, liabilities, if any, under these actions will not have a material impact on its financial position.

Note 14 – Subsequent Events

Subsequent events are events or transactions that occur after the statement of financial position date, but before the financial statements are available to be issued. The University recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position, including the estimates inherent in the process of preparing the financial statements. The University's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position, but arose after the statement of financial position date and before the financial statements are available to be issued.

The University has evaluated subsequent events through October 18, 2017, which is the date the financial statements were available for issuance.