Report of Independent Auditors
and Financial Statements

University of San Diego

June 30, 2026 and 2025

bakertilly

Table of Contents

	Page
Report of Independent Auditors	1
Financial Statements	
Statements of Financial Position	4
Statement of Activities – 2026	5
Statement of Activities – 2025	6
Statements of Cash Flows	7
Notes to Financial Statements	8

Report of Independent Auditors

The Board of Trustees
University of San Diego

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of University of San Diego (the University), which comprise the statements of financial position as of June 30, 2026 and 2025, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the University as of June 30, 2026 and 2025, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the University and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern within one year after the date that the financial statements are issued.

Baker Tilly Advisory Group, LP and Baker Tilly US, LLP, trading as Baker Tilly, are members of the global network of Baker Tilly International Ltd., the members of which are separate and independent legal entities. Baker Tilly US, LLP is a licensed CPA firm that provides assurance services to its clients. Baker Tilly Advisory Group, LP and its subsidiary entities provide tax and consulting services to their clients and are not licensed CPA firms.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Baker Tilly US, LLP

San Diego, California
October 21, 2026

Financial Statements

University of San Diego
Statements of Financial Position
(In Thousands)
June 30, 2026 and 2025

	2026	2025
ASSETS		
Cash, cash equivalents, and restricted cash	$ 21,697	$ 13,011
Short-term investments	48,863	47,369
Accounts and loans receivable, net	47,106	45,046
Other assets	20,378	17,760
Contributions receivable, net	97,787	112,344
Property, plant, and equipment, net	839,478	808,886
Long-term investments	961,591	871,259
Total assets	$ 2,036,900	$ 1,915,675
LIABILITIES		
Accounts payable and accrued expenses	$ 68,812	$ 56,064
Deferred revenue	20,781	21,002
Other liabilities	25,891	14,353
Bonds payable, net	256,365	262,268
Refundable advances	2,186	2,784
Total liabilities	374,035	356,471
NET ASSETS		
Without donor restrictions	969,559	943,633
With donor restrictions	693,306	615,571
Total net assets	1,662,865	1,559,204
Total liabilities and net assets	$ 2,036,900	$ 1,915,675

See accompanying notes.

University of San Diego
Statement of Activities
(In Thousands)
Year Ended June 30, 2026

	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING			
Revenues and other additions			
Tuition and fees, net	$ 293,514	$ -	$ 293,514
Sales and services of auxiliary enterprises	72,332	-	72,332
Grants and contracts	29,483	-	29,483
Contributions	4,088	30,469	34,557
Investment return distributed	10,797	15,290	26,087
Investment income, net	28,301	-	28,301
Other revenue	15,376	213	15,589
Total revenues	453,891	45,972	499,863
Net assets released from restrictions for operations	26,352	(26,352)	-
Total revenues and other additions	480,243	19,620	499,863
Expenses			
Educational programs	241,688	-	241,688
Research	8,907	-	8,907
Athletics and recreation	35,387	-	35,387
Public service	14,102	-	14,102
Auxiliary enterprise expenses	64,315	-	64,315
Management and general expenses	121,033	-	121,033
Total expenses	485,432	-	485,432
CHANGE IN NET ASSETS FROM OPERATIONS	(5,189)	19,620	14,431
NON-OPERATING			
Investment income, net	40,385	62,054	102,439
Less investment return distributed	(10,797)	(15,290)	(26,087)
Total non-operating investment return, net	29,588	46,764	76,352
Contributions for non-operating activities	-	11,351	11,351
Unrealized gain on interest rate swap	1,527	-	1,527
Net assets released from restrictions – non-operating	-	-	-
CHANGE IN NET ASSETS FROM NON-OPERATING ACTIVITIES	31,115	58,115	89,230
CHANGE IN NET ASSETS	25,926	77,735	103,661
NET ASSETS			
Beginning of year	943,633	615,571	1,559,204
End of year	$ 969,559	$ 693,306	$ 1,662,865

See accompanying notes.

University of San Diego
Statement of Activities
(In Thousands)
Year Ended June 30, 2025

	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING			
Revenues and other additions			
Tuition and fees, net	$ 268,434	$ -	$ 268,434
Sales and services of auxiliary enterprises	68,271	-	68,271
Grants and contracts	33,145	-	33,145
Contributions	5,515	45,479	50,994
Investment return distributed	10,968	14,921	25,889
Investment income, net	16,661	-	16,661
Other revenue	8,902	193	9,095
Total revenues	411,896	60,593	472,489
Net assets released from restrictions for operations	24,608	(24,608)	-
Total revenues and other additions	436,504	35,985	472,489
Expenses			
Educational programs	229,181	-	229,181
Research	9,854	-	9,854
Athletics and recreation	29,308	-	29,308
Public service	14,497	-	14,497
Auxiliary enterprise expenses	60,966	-	60,966
Management and general expenses	108,180	-	108,180
Total expenses	451,986	-	451,986
CHANGE IN NET ASSETS FROM OPERATIONS	(15,482)	35,985	20,503
NON-OPERATING			
Investment income, net	24,186	35,759	59,945
Less investment return distributed	(10,968)	(14,921)	(25,889)
Total non-operating investment return, net	13,218	20,838	34,056
Contributions for non-operating activities	-	54,823	54,823
Unrealized gain on interest rate swap	275	-	275
Net assets released from restrictions – non-operating	15	(15)	-
CHANGE IN NET ASSETS FROM NON-OPERATING ACTIVITIES	13,508	75,646	89,154
CHANGE IN NET ASSETS	(1,974)	111,631	109,657
NET ASSETS			
Beginning of year	945,607	503,940	1,449,547
End of year	$ 943,633	$ 615,571	$ 1,559,204

See accompanying notes.

University of San Diego
Statements of Cash Flows
(In Thousands)
Years Ended June 30, 2026 and 2025

	2026	2025
OPERATING ACTIVITIES		
Change in net assets	$ 103,661	$ 109,657
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	24,998	23,736
Net amortization of bond premiums/discount and debt issuance cost	(338)	(338)
Net provision for losses on receivables	(64)	(56)
Net realized and unrealized gain on investments	(123,666)	(68,037)
Net unrealized gain on interest rate swap	(1,527)	(275)
Contributions restricted for long-term investments	(11,268)	(8,164)
Contributions restricted for investment in property, plant, and equipment	(11,351)	(54,823)
Proceeds from sale of donated securities	11,891	3,556
Changes in operating assets and liabilities		
Accounts receivable	(2,805)	5,493
Other assets	(2,618)	753
Contributions receivable	14,556	(67,172)
Accounts payable and accrued expenses	17,944	(7,137)
Deferred revenue	(221)	258
Other liabilities	28	(19)
Net cash provided by (used in) operating activities	19,220	(62,568)
INVESTING ACTIVITIES		
Proceeds from maturities/sales of investments	540,008	649,116
Purchases of investments	(520,058)	(567,316)
Purchase of property, plant, and equipment	(47,750)	(78,856)
Net disbursements of student loans	810	1,509
Net cash (used in) provided by investing activities	(26,990)	4,453
FINANCING ACTIVITIES		
Principal payments on bonds payable	(5,565)	(2,337)
Net change in government loan funds	(598)	(830)
Contributions restricted for long-term investments	11,268	8,164
Contributions restricted for investment in property, plant, and equipment	11,351	54,823
Net cash provided by financing activities	16,456	59,820
CHANGE IN CASH, CASH EQUIVALENTS, AND RESTRICTED CASH	8,686	1,705
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH		
Beginning of year	13,011	11,306
End of year	$ 21,697	$ 13,011
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	$ 10,692	$ 6,884
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING ACTIVITIES		
Purchases of property, plant, and equipment included in accounts payable and other liabilities	$ 5,197	$ 1,148
Right-of-use assets obtained in exchange for lease liabilities upon lease renewals	$ 18,175	$ -

See accompanying notes.

Note 1 – Nature of Operation and Significant Accounting Policies

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 Knauss School of Business; 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.

Basis of presentation – The University's resources are classified for accounting and reporting purposes into two net asset categories according to the existence or absence of donor-imposed restrictions. Descriptions of the two net asset categories and types of transactions affecting each category follow:

Net assets without donor restrictions – Net assets without donor restrictions are free of donor-imposed restrictions. All revenues, gains, and losses that are not restricted by donors are included in this classification. All expenditures are reported in the without donor restrictions class of net assets, including expenditures funded by restricted contributions. Expenditures funded by restricted contributions are reported in the without donor restrictions net asset class because the use of restricted contributions in accordance with donors' stipulations results in the release of such restrictions. Net assets without donor restrictions also include quasi endowment net assets designated by the Board or management for specific purposes. See Note 12.

Net assets with donor restrictions – Net assets with donor restrictions are limited as to use by donor-imposed stipulations that may expire with the passage of time or that may be satisfied by action of the University. Net assets with donor restrictions are designated by donors for specific purposes and include unconditional pledges and accumulated appreciation on donor-restricted endowments, which have not been appropriated by the Board for distribution. Some net assets with donor restrictions are required by donors to be held in perpetuity. The donors of substantially all net assets to be held in perpetuity permit the University to use a portion of income earned on the related investments for specific purposes.

Expiration of donor-imposed restrictions – Net assets are released from donor restrictions by incurring expenses to satisfy the restricted purposes and by occurrence of events specified by the donors, including the passage of time. Donor restrictions on long-lived assets or cash to construct or acquire long-lived assets are considered to have expired when the assets are placed in service.

Cash, cash equivalents, and restricted cash – 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 governmental loan programs which include the Perkins Student Loan Fund Program, the Nurse Faculty Loan Fund Program, and the Cal Grant Program.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash as reported on the statements of financial position that sum to the total of such amounts reported on the statements of cash flows at June 30 (in thousands):

	2026	2025
Cash and cash equivalents – unrestricted	$ 13,191	$ 7,099
Cash and cash equivalents – restricted		
Governmental loan funds	8,506	5,912
	$ 21,697	$ 13,011

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 and adjusted for purchases or gifts specifically identified to a given net asset category.

Except for direct investments in real property, the University manages its investments by using external investment managers. These investment managers invest the University's funds in various financial instruments in accordance with Board-approved investment policies. The University classifies investments as short-term investments or long-term investments on the statements of financial position, depending upon the investment time horizon, liquidity considerations, and intended purpose and use of the assets.

Accounts and loans receivable – Receivables are recorded net of an allowance for credit losses. The allowance is based on management's historical collection experience, adjusted for management's expectations about current and future economic conditions.

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. At times, balances in the University's cash and investment accounts exceed Federal Deposit Insurance Corporation or Securities Investor Protection Corporation limits.

Student loans and accounts receivable 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.

Property, plant, and equipment – 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; and 7 years for furniture, equipment, and technology upgrades. Depreciation expense totaled approximately $24,998,000 and $23,736,000 for the years ended June 30, 2026 and 2025, respectively.

The art collection consists of various pieces of donated and purchased artwork, antique furniture, and artifacts that are held for the public, preserved, and protected, and, if sold, proceeds are used for the acquisition of additions to the collection. The value of the art collection is expected to increase over time, and therefore, is not depreciated.

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the asset to future net cash flows (undiscounted and without interest) expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. During the years ended June 30, 2026 and 2025, there were no events or changes in circumstances indicating that the carrying amount of long-lived assets may not be recoverable.

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% 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 net assets without donor restrictions. 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 for the change in the swap agreement's fair value was approximately $1,527,000 and $275,000 for the years ended June 30, 2026 and 2025, respectively. The value of the swap instrument is a payable of approximately $5,686,000 and $7,214,000 recorded in other liabilities at June 30, 2026 and 2025, 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, 2026 and 2025, are student loans receivable of approximately $3,511,000 and $4,000,000, 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. These expenses were incurred to support campaigns promoting charitable contributions including gifts directed toward the University's endowment and capital projects.

Earnings on donor-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 donor-restricted endowments are recorded as with donor restrictions, in accordance with donor stipulations. Accumulated unspent earnings are reinvested and retained in the Funds to protect them against inflation over the long term.

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 the 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.

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:

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 funds' 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. Securities classified within Level 3 investments are based on valuations provided by external investment managers. 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.

Tuition and fees – The University uses the output measure for revenue recognition of tuition and fees revenue, which means the revenue is recognized pro rata over each instructional course as performance obligations associated with the delivery of educational services are provided. A contract is entered into with a student and covers a course or semester. The University determined there are no costs that are capitalized to obtain or fulfill these contracts with a student. Revenue recognition begins once a student starts attending a course. Registration and other fees that do not relate to instruction are recognized when no longer refundable. The University's receivables represent unconditional rights to consideration from its contracts with students; accordingly, receivables are not recorded until students have begun a course and the revenue recognition has commenced.

The University maintains an institutional tuition refund policy, which provides for all or a portion of tuition to be refunded if a student withdraws during stated refund periods. If a student withdraws at a time when only a portion, or none, of the tuition is refundable, then in accordance with its revenue recognition policy, the University continues to recognize the tuition that was not refunded pro rata over the applicable period of instruction. The University's education programs have start and end dates that differ from its fiscal year end. Students are generally billed for courses and programs prior to the start of the course or program. Therefore, at the end of each fiscal year, a portion of revenue from these programs is not yet earned and is recorded as deferred revenue in the statements of financial position. Student tuition and fees received in advance of services to be rendered are also recorded as deferred revenue.

Sales and services of auxiliary enterprises – The University uses the output measure for revenue recognition of student room and board, which means the revenue is recognized pro rata as performance obligations associated with the delivery of room and board services are provided. A contract is entered into with a student and typically covers a similar period of a course or semester that corresponds to their education program. The University determined there are no costs that are capitalized to obtain or fulfill these contracts with a student. Revenue recognition begins once a student moves into the housing. Deposits and other fees are recognized when no longer refundable.

The University's receivables represent unconditional rights to consideration from its contracts with students; accordingly, receivables are not recorded until students have moved into student housing. If a student withdraws at a time when only a portion, or none, of the room and board is refundable, then in accordance with its revenue recognition policy, the University continues to recognize the room and board that was not refunded pro rata over the applicable housing period. Students are generally billed for room and board prior to their moving in. Therefore, at the end of each fiscal year, a portion of revenue from these programs is not yet earned and is recorded as deferred revenues in the statements of financial position.

Other sales and services of Auxiliary Enterprises include the bookstore, parking, food services other than those included in room and board, and other educational activities that further the University's mission for providing education outside of student enrollment. Revenue is recognized for these sales and services in the period the services are provided.

Contributions – Unconditional contributions, including cash, other assets, and unconditional promises to give, are recognized as revenues in the period received. Contributions whose restrictions are met in the same period they are received are recorded as revenue in net assets with donor restrictions 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. Pledges are discounted to present value using a discount rate commensurate with the risk involved (see Note 5). 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.

For the year ended June 30, 2026, no individual contributions exceeded 10% of the University's contributions revenue, including contributions for non-operating activities. For the year ended June 30, 2025, contributions from one donor represented 55% of the University's contributions revenue, including contributions for non-operating activities.

Split-interest agreements – Split-interest agreements are comprised of unitrusts and charitable gift annuities. To determine the fair value of unitrust assets, which the University holds a beneficial interest in but is not the trustee, 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.

Grants and contracts – Individual governmental and private grant arrangements are evaluated and determined whether they are nonreciprocal, meaning the granting entity has not received a direct benefit of commensurate value in exchange for the resources provided. Instead, revenue is recognized as a conditional contribution when the barrier to entitlement is overcome. The barrier to entitlement is considered overcome when expenditures associated with each grant are determined to be allowable and all other significant conditions of the grant are met.

For the individual governmental and private grant arrangements that are reciprocal, revenue is recognized as services are provided, which is generally as allowable expenditures are incurred.

Investment income (loss), net – Investment income (loss) (including realized and unrealized gains and losses on investments, interest, and dividends) net of investment expenses, is included in operating and non-operating revenues, gains, and other support without donor restrictions unless the income or loss is restricted by donor, law, or endowment spending.

Functional allocation of expenses – The University's primary program activity is academic instruction and support. Facilities operation and maintenance, interest, and depreciation are allocated among functional classifications based on usage of space, square footage, building costs, and debt proceeds usage. All other costs are charged directly to the appropriate functional category.

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 and other gains and losses deemed non-operating are recorded under non-operating activities.

Use of estimates – The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America (U.S. 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 Internal Revenue Service (IRS) has recognized the University as exempt from tax under the provisions of Section 501(c)(3) of the Internal Revenue Code (IRC) and Section 23701(d) of the California Revenue and Taxation Code, except to the extent of unrelated business income under IRC Sections 511 through 515. Unrelated business income tax, if any, is immaterial. As of June 30, 2026 and 2025, the University had no uncertain tax positions requiring accrual. The University may be subject to routine audit by the IRS; however, there are currently no audits for any tax periods in progress.

The University has no unrecognized tax benefits or liabilities as of June 30, 2026 and 2025. The University files an exempt organization return and an applicable unrelated business income tax return in the U.S. federal jurisdiction and with the California Franchise Tax Board.

Note 2 – Investments

Investments consisted of the following at June 30, 2026 (in thousands):

	Pooled	Non-Pooled	Total Investments
Short term			
Cash and cash equivalents	$ 10,806	$ 13,788	$ 24,594
Fixed income	-	22,496	22,496
Equities	-	1,773	1,773
	10,806	38,057	48,863
Long term			
Cash and cash equivalents	4,812	4	4,816
Fixed income	146,720	397	147,117
Equities	389,034	601	389,635
Real property	-	15,177	15,177
Real assets	33,863	-	33,863
Marketable alternatives	83,595	-	83,595
Non-marketable alternatives	287,388	-	287,388
	945,412	16,179	961,591
Total	$ 956,218	$ 54,236	$ 1,010,454

Investments consisted of the following at June 30, 2025 (in thousands):

	Pooled	Non-Pooled	Total Investments
Short term			
Cash and cash equivalents	$ 12,310	$ 11,592	$ 23,902
Fixed income	-	22,282	22,282
Equities	-	1,185	1,185
	12,310	35,059	47,369
Long term			
Cash and cash equivalents	31,276	5	31,281
Fixed income	150,042	413	150,455
Equities	334,992	496	335,488
Real property	-	20,588	20,588
Real assets	16,523	-	16,523
Marketable alternatives	55,621	-	55,621
Non-marketable alternatives	261,303	-	261,303
	849,757	21,502	871,259
Total	$ 862,067	$ 56,561	$ 918,628

Investment return – The following schedule summarizes investment income (loss) and its classification in the statements of activities for the years ended June 30, 2026 and 2025 (in thousands):

	2026		
	Without Donor Restrictions	With Donor Restrictions	Total
Interest and dividends	$ 6,516	$ 2,884	$ 9,400
Less investment expenses	(1,122)	(1,068)	(2,190)
Net interest and dividends	5,394	1,816	7,210
Realized gain, net	31,941	28,222	60,163
Unrealized gain, net	31,351	32,016	63,367
Total	$ 68,686	$ 62,054	$ 130,740

	2025		
	Without Donor Restrictions	With Donor Restrictions	Total
Interest and dividends	$ 7,565	$ 3,861	$ 11,426
Less investment expenses	(1,150)	(1,102)	(2,252)
Net interest and dividends	6,415	2,759	9,174
Realized gain, net	22,192	21,276	43,468
Unrealized gain, net	12,239	11,724	23,963
Total	$ 40,846	$ 35,759	$ 76,605

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 and funds – Investments in fixed-income securities and funds 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. Investments in fixed-income securities funds also include investments in index funds, which fair values may be based on the NAV of the fund.

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, fair values of which may be based on the NAV of the fund.

Real property – Investments in real property include various residential and commercial properties in San Diego, California. The University has estimated the real estate's fair value by using market comparable 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.

Split interest in trust held by third parties – The University's split interests 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.

The following table discloses by level the fair value hierarchy for assets and liabilities at June 30, 2026:

	(In Thousands)				
	Level 1	Level 2	Level 3	Assets Held at Net Asset Value (or Equivalent)	2026 Total
ASSETS					
Investment in					
Cash and cash equivalents	$ 29,410	$ -	$ -	$ -	$ 29,410
Fixed-income securities and funds					
Domestic debt securities	397	-	-	58,229	58,626
Government debt securities	5,584	-	-	-	5,584
Domestic and global securities	60,990	-	-	44,413	105,403
Equities funds					
Domestic equity securities	15,569	-	-	186,495	202,064
International equity securities	27,843	-	-	94,166	122,009
Emerging market equity securities	-			67,336	67,336
Real estate	-	15,177	-		15,177
Real assets funds	14,934	-	-	18,929	33,863
Marketable alternatives					
Absolute return hedge funds	-	-	-	51,947	51,947
Long/short hedge funds	-	-	-	-	-
Diversifying hedge funds	-	-	-	31,648	31,648
Non-marketable alternatives					
Venture capital	-	-	-	105,622	105,622
Domestic private equity	-	-	-	98,214	98,214
International private equity	-	-	-	11,206	11,206
Distressed debt	-	-	-	6,219	6,219
Diversifiers private equity	-	-	-	24,766	24,766
Energy and resources	-	-	-	25,890	25,890
Real estate	-	-	-	15,470	15,470
	154,727	15,177	-	840,550	1,010,454
Split interest in trust held by third parties	-	-	894	-	894
Total fair value of assets	$ 154,727	$ 15,177	$ 894	$ 840,550	$ 1,011,348
LIABILITIES					
Interest-rate swap agreement	$ -	$ 5,686	$ -	$ -	$ 5,686

The following table discloses by level the fair value hierarchy for assets and liabilities at June 30, 2025:

	(In Thousands)				
	Level 1	Level 2	Level 3	Assets Held at Net Asset Value (or Equivalent)	2025 Total
ASSETS					
Investment in					
Cash and cash equivalents	$ 55,183	$ -	$ -	$ -	$ 55,183
Fixed-income securities and funds					
Domestic debt securities	413	-	-	45,666	46,079
Government debt securities	5,427	-	-		5,427
Domestic and global securities	69,009	-	-	52,222	121,231
Equities funds					
Domestic equity securities	13,048	-	-	174,436	187,484
International equity securities	28,231	-	-	65,926	94,157
Emerging market equity securities	-	-	-	55,031	55,031
Real estate	-	20,588	-	-	20,588
Real assets funds	-	-	-	16,523	16,523
Marketable alternatives					
Absolute return hedge funds	-	-	-	37,987	37,987
Long/short hedge funds	-	-	-	664	664
Diversifying hedge funds	-	-	-	16,969	16,969
Non-marketable alternatives					
Venture capital	-	-	-	77,290	77,290
Domestic private equity	-	-	-	95,134	95,134
International private equity	-	-	-	13,459	13,459
Distressed debt	-	-	-	5,158	5,158
Diversifiers private equity	-	-	-	23,239	23,239
Energy and resources	-	-	-	30,824	30,824
Real estate	-	-	-	16,201	16,201
	171,311	20,588	-	726,729	918,628
Split interest in trust held by third parties	-	-	2,470	-	2,470
Total fair value of assets	$ 171,311	$ 20,588	$ 2,470	$ 726,729	$ 921,098
LIABILITIES					
Interest-rate swap agreement	$ -	$ 7,214	$ -	$ -	$ 7,214

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

	2026	2025
BALANCE, beginning of year	$ 2,470	$ 2,896
Maturities	(1,620)	(534)
Actuarial adjustment	44	108
BALANCE, end of year	$ 894	$ 2,470

Net appreciation (depreciation) on investments and the actuarial adjustment for the split interest in trusts in the above tables is reflected in the lines “Investment income (loss)” 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, 2026:

	(In Thousands)				
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period	Notes
FIXED-INCOME SECURITIES AND FUNDS					
Domestic debt securities	$ 58,229	N/A	1–92 days, with exception to those under gate limitations	1–60 days, with exception to those under gate limitations	(a)
Domestic and global securities	44,413	N/A	Daily	Daily	(a)
EQUITIES FUNDS					
Domestic equity securities	186,495	N/A	8 days to 24 months, with exception to those under gate limitations	5–126 days, with exception to those under gate limitations	(a)
International equity securities	94,166	N/A	1–34 days, with exception to those under gate limitations	1–15 days, with exception to those under gate limitations	(a)
Emerging market equity securities	67,336	N/A	1–92 days, with exception to those under gate limitations	1–60 days, with exception to those under gate limitations	(a)
REAL ASSETS FUNDS	18,929	N/A	34–92 days	15–90 days	(b)
MARKETABLE ALTERNATIVES					
Absolute return hedge funds	51,947	N/A	15 days to 64 months	7–180 days, with exception to those under gate limitations	(c)
Diversifying hedge funds	31,648	N/A	31–365 days	10-15 days	(d)
NON-MARKETABLE ALTERNATIVES					
Venture capital	105,622	17,396	N/A – Redeemable upon maturity	N/A	(e)
Domestic private equity	98,214	34,194	N/A – Redeemable upon maturity	N/A	(f)
International private equity	11,206	1,814	N/A – Redeemable upon maturity	N/A	(f)
Distressed debt	6,219	2,042	N/A – Redeemable upon maturity	N/A	(g)
Diversifiers private equity	24,766	18,127	N/A – Redeemable upon maturity	N/A	(h)
Energy and resources	25,890	13,160	N/A – Redeemable upon maturity	N/A	(i)
Real estate	15,470	2,932	N/A – Redeemable upon maturity	N/A	(j)
	$ 840,550	$ 89,665			

(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 and international equities, as well as emerging markets. Less than 1% of the investments are not redeemable until liquidation by the fund manager.

(b) This category includes an investment in two real assets funds. 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 four different fund managers. These funds are invested in absolute return strategies, including diversified arbitrage, event-driven arbitrage, and distressed funds. Less than 10% of the investments are not redeemable until liquidation by the fund manager. The remaining values are generally redeemable within one to five years, subject to certain gate limitations.

(d) This category includes investments in various types of hedge funds using a total of three 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 six months, subject to certain gate limitations.

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

(f) 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.

(g) 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.

(h) This category includes investments in diversifying funds, which use differentiated strategies and typically have low correlations to the rest of the portfolio.

(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):

	2026	2025
Student loans receivable	$ 21,792	$ 22,601
Other receivables	14,842	14,328
Student accounts receivable for tuition and fees	17,789	15,493
	54,423	52,422
Less allowance for credit losses – student loans	(7,147)	(7,019)
Less allowance for credit losses – student accounts	(170)	(357)
Total	$ 47,106	$ 45,046

Student accounts receivable consists of amounts billed to students for tuition and auxiliary charges. Accounts receivable are presented net of an allowance for credit losses, which is an estimate of amounts that may not be collectible. The University separates accounts receivable into risk pools based on their aging. In determining the amount of the allowance at the statement of financial position date, the University develops a loss rate for each risk pool. This loss rate is based on management's historical collection experience, adjusted for management's expectations about current and future economic conditions.

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 credit losses at June 30 are as follows (in thousands):

	2026	2025
Institutional loans	$ 18,281	$ 18,601
Federally sponsored loans	3,511	4,000
	21,792	22,601
Less allowance for credit losses	(7,147)	(7,019)
Total	$ 14,645	$ 15,582

Student loans receivable are primarily amounts loaned to students under the Federal Perkins Loan Program, Nursing Student Loans, and the Nursing Faculty Loan Program (the Loan Programs) as well as institutional programs, and are stated at their outstanding principal amount. Principal and interest payments on loans generally do not commence until after the borrower graduates or otherwise ceases enrollment. Given the nature of the types of student loans receivable, federal loan program and institutional loan program receivables are analyzed separately. Federal guarantees subject to the federal loan programs are not subject to credit risk and are excluded from the estimates. Institutional loan programs are assessed for credit risk using the basic measurement principles outlined above and the following are additional considerations:

1. The accounting for accrued interest and any premiums or discounts
2. The length of the forecast period and reversion to historical levels
3. Risk pools and key credit quality indicators
4. Collateral

Loans to students under the Loan Programs are subject to mandatory interest rates and significant restrictions, and loans issued under the Loan Programs 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 Loan Programs are ultimately refundable to the federal government in the event the University no longer participates in the Loan Programs and, accordingly, have been reported as refundable advances in the statements of financial position. As of October 1, 2017, the Federal Perkins Extension Act of 2015 expired and no longer permitted disbursement to students of any kind after that date.

Overall changes in the allowance for credit losses for the year ended June 30, 2026, were as follows (in thousands):

	2026	2025
Balance, beginning of year	$ 7,376	$ 7,431
Provisions	437	551
Write-offs, net of recoveries	(496)	(606)
Balance, end of year	$ 7,317	$ 7,376

The University provides home mortgage financing assistance to certain faculty. Notes receivable amounting to approximately $2,014,000 and $2,990,000 were outstanding at June 30, 2026 and 2025, respectively, and are collateralized by deeds of trust on properties concentrated in the region surrounding the University. No allowance for credit losses has been recorded against these loans based on their collateralization and nature of the loans as forgivable. As 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):

	2026	2025
Unconditional pledges		
Less than one year	$ 11,786	$ 9,443
One to five years	54,285	74,607
More than five years	66,718	67,101
	132,789	151,151
Less present value discount (between 0.6% and 5.6%)	(27,699)	(33,186)
Less allowance for uncollectibility	(8,197)	(8,091)
Net pledges receivable	96,893	109,874
Split-interest agreements – more than five years	894	2,470
Total	$ 97,787	$ 112,344

At June 30, 2026, outstanding pledges from two donors represented 57% of the University's gross pledges. At June 30, 2025, an outstanding pledge from two donors represented 63% of the University's gross pledges.

Split-interest agreements are comprised of unitrusts and charitable gift annuities.

Type	(In Thousands) Fair Value at June 30, 2026	Valuation Technique	Significant Unobservable Inputs	Range of Input Value
Split interests in trust held by third parties	$ 894	Discounted Cash Flow	Discount Rate Life Expectancy	5.0% 11 to 25 years

Note 6 – Property, Plant, and Equipment

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

	2026	2025
Land and improvements	$ 66,120	$ 63,288
Buildings and improvements	923,760	911,769
Furniture, equipment, and technology upgrades	31,840	28,827
Library resources	53,001	53,738
Construction in progress	55,988	34,195
	1,130,709	1,091,817
Less accumulated depreciation	(314,020)	(292,683)
	816,689	799,134
Right to use asset	18,342	5,305
Art collection	4,447	4,447
Total	$ 839,478	$ 808,886

Note 7 – Deferred Revenue

Deferred revenue represents payments received prior to the start of the academic term or payments made in advance of services performed. The activity and balances for deferred revenue are as follows as of and for the years ended June 30 (in thousands):

	2026	2025
Deferred revenue, beginning of year	$ 21,002	$ 20,744
Revenue recognized	(21,002)	(20,744)
Cash received in advance of performance		
Student tuition and fees	9,718	9,772
Sales and services of auxiliary enterprises	857	476
Grants and contracts	3,408	3,753
Other deferred revenue	6,798	7,001
Deferred revenue, end of year	$ 20,781	$ 21,002

The balance of deferred revenue as of year end, for student tuition and fees, sales and services of auxiliary enterprises, and grants and contracts, will be recognized as revenue over the academic term, as services are rendered.

The University applies the practical expedient for student tuition and fees, sales and services of auxiliary enterprises, and grants and contracts in Accounting Standards Codification 606-10-50-14, and therefore, does not disclose information about remaining performance obligations that have original expected durations of one year or less.

Other deferred revenue at year end consists of contract liabilities in which the performance obligation has not been met. The contract liabilities will be recognized as revenue over the life of the agreement of 15 years as performance obligations are satisfied. Accrued revenues recorded as receivables are billed on a semi-annual basis. Receivables from contract assets are included in other assets on the statements of financial position.

Note 8 – Leases

The University is the lessee of apartment units under various non-cancelable operating lease agreements. The lease commencement dates are between July 2023 and June 2026 and expire between May 2026 and June 2029. The operating lease expense for the years ended June 30, 2026 and 2025, were $6,135,000 and $6,002,000, respectively. The cash payments recorded for the years ended June 30, 2026 and 2025, were $5,950,000 and $5,602,000, respectively, and are reflected within cash flows from operating activities on the statements of cash flows. For the years ended June 30, 2026 and 2025, the weighted average discount rate is 4.3% and 4.6%, respectively, for the respective leases and is based on the risk-free rate at the time of the lease. The leases contain customary escalation clauses and rent abatement entitlements, which are included in the annual aggregate minimum lease payments.

Future minimum lease payments are as follows (in thousands):

Years Ending June 30,	
2027	$ 6,826
2028	6,826
2029	6,257
Total undiscounted cash flows	19,909
Discount to present value	(1,020)
Total lease liabilities	$ 18,889

Lease liabilities are included in other liabilities on the statement of financial position. The University records short-term leases (those 12 months or less in duration) as operating expenditures in the periods in which the lease obligations are incurred.

Note 9 – 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):

	2026	2025
Fair value of designated assets	$ 7,383	$ 6,869
Post-retirement benefit obligation	7,383	6,869
(Under) over funded	$ -	$ -

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.

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

	2026	2025
Benefit costs	$ 224	$ 97
Benefit payments	$ 336	$ 207
Contributions	$ 402	$ 228
Weighted-average assumptions		
Discount rate	5.7%	5.2%
Expected return on plan assets	7.0%	7.0%

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) that covers all benefit-eligible employees. For the participating employees, the University contributed 10% of the employees' eligible compensation to the Plan for the years ended June 30, 2026 and 2025. 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 $19,653,000 and $18,687,000 for the years ended June 30, 2026 and 2025, respectively.

Note 10 – Line 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 $1,898,000 of the line has been earmarked for letters of credit related to insurance policies. The renewable line of credit is effective through May 31, 2027, and may be used for working capital purposes. There were no borrowings under this line at June 30, 2026 and 2025.

Note 11 – Bonds Payable

Bonds payable consist of tax-exempt borrowings issued through the California Municipal Finance Authority (CMFA) and California Educational Facilities Authority (CEFA) in the form of either fixed rate or variable rate revenue bonds. The University has issued CMFA and CEFA bonds to finance the construction, renovation, and equipping of certain educational facilities; to pay certain costs of issuance; and to refund prior bond issues.

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

	2026	2025
2022 California Municipal Finance Authority bonds (the 2022 bonds), with an interest rate of 4.565%, payable on April 1 and October 1 each year, maturing October 2052	$ 75,000	$ 75,000
	75,000	75,000
Unamortized original cost of issuance	(587)	(610)
	74,413	74,390
2019A California Municipal Finance Authority bonds (the 2019A bonds), with an interest rate of 5%, payable on April 1 and October 1 each year, maturing October 2049	44,355	44,355
	44,355	44,355
Unamortized original issue premium	9,376	9,821
Unamortized original cost of issuance	(305)	(318)
	53,426	53,858
2019B California Municipal Finance Authority bonds (the 2019B bonds), with interest rates varying between 1.755% and 3.387%, payable on April 1 and October 1 each year, maturing October 2041	41,645	47,125
	41,645	47,125
Unamortized original cost of issuance	(244)	(261)
	41,401	46,864

(continued)

(continued from above)	2026	2025
2015 California Municipal Finance Authority Variable Rate Revenue Bonds (the 2015 Bonds), with interest rates based on market conditions, varying between 3.3% and 4.1% during the year ended June 30, 2026, payable on April 1 and October 1 each year, maturing October 2045	87,125	87,210
	87,125	87,210
Unamortized original cost of issuance	-	-
	87,125	87,210
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%, with interest payable at the time they mature		
Capital appreciation bonds, due October 2009 through October 2024	-	-
	-	-
Unamortized original issue discount	-	(11)
Unamortized original cost of issuance	-	(43)
	-	(54)
Total bonds payable, net	$ 256,365	$ 262,268

In July 2022, the University entered into a direct purchase option with Banc of America Public Capital Corp for the sole purpose of replacing the U.S. Bank direct purchase option for the 2015 Bonds that expired on July 1, 2022. The 2015 Bonds mature in October 2045.

The 2022, 2019A, 2019B, 2015, 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.

The following table sets forth the University's principal payment requirements as of June 30, 2026, on bonds payable for each of the next five years and thereafter (in thousands):

	2022 Bonds	2019A Bonds	2019B Bonds	2015 Bonds	Total
Years Ending June 30,					
2027	$ -	$ -	$ 5,585	$ 80	$ 5,665
2028	-	-	5,715	80	5,795
2029	-	-	5,840	75	5,915
2030	-	410	3,450	2,255	6,115
2031	-	460	3,525	2,335	6,320
Thereafter	75,000	43,485	17,530	82,300	218,315
	$ 75,000	$ 44,355	$ 41,645	$ 87,125	$ 248,125

Note 12 – Net Assets

Net assets consisted of the following at June 30 (in thousands):

	2026	2025
Net assets without donor restrictions		
Available for operations	$ 10,922	$ 31,826
Net invested in property, plant, and equipment	564,772	546,618
Board-designated quasi-endowment for financial aid and career services	327,429	298,042
Board-designated quasi-endowment for program support	12,276	8,894
Capital asset acquisition	54,160	58,253
Total net assets without donor restrictions	$ 969,559	$ 943,633
Net assets with donor restrictions		
Net assets restricted by time or purpose		
Educational programs	$ 180,717	$ 154,891
Scholarships	74,365	58,721
Athletics and recreation	3,523	2,302
Research	762	643
Public service	21,801	17,774
Total program support	281,168	234,331
Management and general support	140,029	121,209
Total net assets restricted by time or purpose	421,197	355,540
Net assets with perpetual restrictions		
Revolving student loan funds from private sources	26,989	26,509
Investment in perpetuity, the income from which is expendable to support the following programs		
Educational programs	137,003	131,908
Scholarships	83,628	79,664
Athletics and recreation	229	229
Research	240	187
Public service	9,693	7,998
	230,793	219,986
Management and general support	14,327	13,536
Total net asset with perpetual restrictions	272,109	260,031
Total net assets with donor restrictions	$ 693,306	$ 615,571

Net assets released from restrictions are as follows at June 30 (in thousands):

	2026	2025
Purpose and time restricted – operating	$ 26,352	$ 24,608
Purpose and time restricted – non-operating	$ -	$ 15

Note 13 – 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 net assets with donor restrictions. 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 in perpetuity. The value of assets in excess of original gifts in donor-restricted endowment funds is classified as net assets with donor restrictions 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% of the trailing three-year average of the endowment's fair value. The fair value is the sum of the endowment principal 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 threefold: (1) to provide a relatively predictable, stable, and constant spending stream to meet the needs of the University; (2) preserve and enhance the real (inflation adjusted) purchasing power of the Fund; and (3) to increase the Fund through unspent income and gains, appreciated value, gifts, and other appropriate funds.

It is recognized that the achievement of a long-term, real return sufficient to cover spending and maintain the real value of the corpus requires 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 and investment managers. In addition, the Fund will include allocations to asset classes that provide a meaningful hedge against deflation and inflation. As part of its delegated responsibility to establish investment policies and oversight for the Fund, the Investment Committee will review the asset allocation policy targets on a regular basis.

Endowment net assets – The following represents a description of the endowment net asset composition by type of fund as of June 30, 2026 (in thousands):

	2026			
		With Donor Restrictions		
	Without Donor Restrictions	Accumulated Gains (Losses)	Original Gift Held in Perpetuity	Total
Donor-restricted endowment funds	$ -	$ 272,046	$ 245,120	$ 517,166
Board designated/quasi-endowment funds	339,705	-	-	339,705
Underwater endowments	-	-	-	-
Total endowment	$ 339,705	$ 272,046	$ 245,120	$ 856,871

The following represents a description of the endowment net asset composition by type of fund as of June 30, 2025 (in thousands):

	2025			
		With Donor Restrictions		
	Without Donor Restrictions	Accumulated Gains (Losses)	Original Gift Held in Perpetuity	Total
Donor-restricted endowment funds	$ -	$ 226,194	$ 233,520	$ 459,714
Board designated/quasi-endowment funds	306,936	-	-	306,936
Underwater endowments	-	-	-	-
Total endowment	$ 306,936	$ 226,194	$ 233,520	$ 766,650

The following represents the changes in endowment net assets for the year ended June 30, 2026 (in thousands):

	2026			
		With Donor Restrictions		
	Without Donor Restrictions	Accumulated Gains (Losses)	Original Gift Held in Perpetuity	Total
Net endowment assets, beginning of year	$ 306,936	$ 226,194	$ 233,520	$ 766,650
Investment return				
Investment income, net	954	1,537	-	2,491
Net appreciation	42,838	60,138	-	102,976
Total investment return	43,792	61,675	-	105,467
Contribution and other revenue	(2)	(1,939)	11,267	9,326
Appropriation and other expenditures	(11,017)	(13,787)	-	(24,804)
Other changes, including transfers	(4)	(97)	333	232
Net endowment assets, end of year	$ 339,705	$ 272,046	$ 245,120	$ 856,871

The following represents the changes in endowment net assets for the year ended June 30, 2025 (in thousands):

	2025			
		With Donor Restrictions		
	Without Donor Restrictions	Accumulated Gains (Losses)	Original Gift Held in Perpetuity	Total
Net endowment assets, beginning of year	$ 294,417	$ 196,755	$ 222,849	$ 714,021
Investment return				
Investment income, net	1,575	2,396	-	3,971
Net appreciation	22,940	32,931	-	55,871
Total investment return	24,515	35,327	-	59,842
Contribution and other revenue	(2)	7,502	10,063	17,563
Appropriation and other expenditures	(11,898)	(13,346)	-	(25,244)
Other changes, including transfers	(96)	(44)	608	468
Net endowment assets, end of year	$ 306,936	$ 226,194	$ 233,520	$ 766,650

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 U.S. GAAP, deficiencies of this nature are reported in net assets with donor restrictions. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new donor-restricted contributions and continued appropriation for certain programs that were deemed prudent by the 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 net assets with donor restrictions. University policy requires a formal petition be filed with the Finance Office for a spending allowance from an underwater endowment; petitions approved by the Vice President for Finance and Chief Financial Officer are reported to the Investment Committee of the Board for acceptance. No such petitions were filed for underwater endowment spending for the years ended June 30, 2026 and 2025.

At June 30, 2026 and 2025, there were no amounts by which funds were calculated as underwater.

Note 14 – Tuition and Fees, net

Student revenue for the years ended June 30 consisted of the following (in thousands):

	2026	2025
Tuition and fees	$ 507,225	$ 468,635
Less tuition discounts and financial aid	(213,711)	(200,201)
Total	$ 293,514	$ 268,434

Note 15 – 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 $1,168,000 and $1,229,000 as of June 30, 2026 and 2025, 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.

The federal government instituted a pause on the funding of Federal grant and loan funds. While these funds have been properly reflected as available for general use as of the reporting date, their collectability is subject to significant uncertainty due to this funding freeze or other federal actions.

Construction – The University has entered into construction contracts with unrelated parties, in the amount of $81,000,000 (including change orders), for the construction or renovation of various campus buildings. At June 30, 2026, $67,915,000 of such contract commitments had not yet been incurred.

Note 16 – Related-Party Transactions

The University is a recipient of generous support and commitments made from many of its constituencies, which are considered related parties and include members of the Board of Trustees, President's Cabinet, other advisory boards and councils, as well as the administration. As a result of irrevocable commitments, a significant number of contributions are expected to be received from related parties in the future. Gross outstanding contributions receivable from related parties represent $78,066,000 and $109,559,000 as of June 30, 2026 and 2025, respectively.

Note 17 – Financial Assets and Liquidity Resources

The following table reflects the University's financial assets as of June 30, 2026 and 2025, reduced by amounts not available for general expenditures within one year. Financial assets are unavailable when illiquid or not convertible to cash within one year. Other non-liquid assets include perpetual endowments and accumulated earnings net of appropriations within one year, amounts restricted by donors for non-operating activities, amounts limited by the University's Board, student loans receivable, and assets held by others. The University considers investment income without donor restrictions, appropriated earnings from donor-restricted and board-designated endowments, contributions without donor restrictions, and contributions with donor restrictions for current operating activities to be available to meet cash needs for general expenditures. The University considers all expenditures related to its operating activities that are incurred in the course of the normal business operations of the University to be general expenditures.

Financial assets available at June 30 (in thousands):

	2026	2025
Financial assets		
Cash and cash equivalents	$ 21,697	$ 13,011
Short-term investments	48,863	47,369
Accounts and loans receivable, net	47,106	45,046
Other assets	18,754	15,352
Contributions receivable, net	97,787	112,344
Long-term investments	961,591	871,259
Financial assets at June 30	1,195,798	1,104,381
Less financial assets unavailable for general expenditure within one year		
Accounts receivable beyond one year	22,556	17,684
Contributions receivable collectible beyond one year	86,001	102,901
Student loan cash and receivables restricted for financial aid purposes	23,153	21,495
Endowment assets, net of appropriation for next fiscal year	501,876	444,794
Board-designated endowment assets, net of appropriation for next fiscal year	328,908	295,967
Non-endowment investments beyond one year	39,618	34,571
State required annuity reserves	397	412
Other donor restricted funds	3,523	5,148
Financial assets unavailable for general expenditure within one year	1,006,032	922,972
Financial assets available to meet cash needs for general expenditure within one year	$ 189,766	$ 181,409

The University's practice is to structure its financial assets to be available as its general expenses, liabilities, and obligations come due. In addition to financial assets available to meet general expenditures over the next year, the University's goal is to operate with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures. Refer to the statements of cash flows, which identify the sources and uses of the University's cash generated by operating activities, for the years ended June 30, 2026 and 2025.

Cash in excess of daily requirements is typically invested in short-term, liquid securities. The University also has an $8 million line of credit of which $1,898,000 of the line has been earmarked for letters of credit related to insurance policies. There were no outstanding advances against the line of credit as of June 30, 2026 and 2025. Additionally, the University has Board-designated endowments and these funds remain available and may be spent at the discretion of the Board; however, no liquidation is anticipated. The University maintains sufficient liquidity within the endowment to cover board-designated amounts, funding commitments, and appropriations for spending distributions. Outstanding funding commitments related to investments are $89,665,000 and may be called by the investment manager at any time (see Note 3).

Note 18 – Expenses by Natural and Functional Classification

Expenses by natural and functional classification for the year ended June 30, 2026, were as follows (in thousands):

	2026								
	Program Activities					Supporting Activities			
	Educational Programs	Research	Athletics and Recreation	Public Service	Auxiliary Enterprise Expenses	Administrative Support	Fundraising	Facilities Operation and Maintenance	Total Expense
Salaries and wages	$ 141,516	$ 3,664	$ 14,372	$ 7,130	$ 12,997	$ 33,513	$ 10,439	$ 10,385	$ 234,016
Benefits	40,043	550	4,265	1,926	3,007	15,141	3,020	3,323	71,275
Professional fees and contracted services	18,293	1,977	4,961	1,910	3,656	7,481	1,996	2,349	42,623
Meetings, travel, and memberships	11,352	921	4,408	1,076	618	2,061	1,191	27	21,654
Materials, supplies, printing, and postage	8,494	608	1,818	315	2,604	9,637	741	1,341	25,558
Depreciation	7,483	250	1,269	-	14,252	1,257	237	250	24,998
Interest	3,509	-	142	-	2,280	4,105	-	12	10,048
Occupancy, utilities, and maintenance	814	21	458	263	16,222	9,147	147	5,231	32,303
Other expenses	10,184	916	3,694	1,482	8,679	-	486	(2,484)	22,957
Total expenses	$ 241,688	$ 8,907	$ 35,387	$ 14,102	$ 64,315	$ 82,342	$ 18,257	$ 20,434	$ 485,432

Expenses by natural and functional classification for the year ended June 30, 2025, were as follows (in thousands):

	2025								
	Program Activities					Supporting Activities			
	Educational Programs	Research	Athletics and Recreation	Public Service	Auxiliary Enterprise Expenses	Administrative Support	Fundraising	Facilities Operation and Maintenance	Total Expense
Salaries and wages	$ 136,526	$ 3,595	$ 12,375	$ 7,066	$ 12,062	$ 31,890	$ 9,802	$ 9,524	$ 222,840
Benefits	38,378	632	3,666	1,801	2,807	13,380	2,877	3,050	66,591
Professional fees and contracted services	16,665	2,561	3,593	2,105	3,640	7,814	3,267	2,861	42,506
Meetings, travel, and memberships	10,831	812	5,081	1,268	636	2,303	1,274	88	22,293
Materials, supplies, printing, and postage	6,799	798	1,547	404	2,200	4,112	558	1,320	17,738
Depreciation	7,105	238	1,205	-	13,533	1,193	225	237	23,736
Interest	3,955	-	171	-	2,644	99	-	15	6,884
Occupancy, utilities, and maintenance	651	30	607	359	15,628	7,225	184	4,241	28,925
Other expenses	8,271	1,188	1,063	1,494	7,816	-	417	224	20,473
Total expenses	$ 229,181	$ 9,854	$ 29,308	$ 14,497	$ 60,966	$ 68,016	$ 18,604	$ 21,560	$ 451,986

Note 19 – Subsequent Events

Subsequent events are events or transactions that occur after the statement of financial position date but before the financial statements are 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 issued.

Public-Private Partnership Student Housing Agreement:

In August 2026, subsequent to fiscal year-end, the University entered into a 99-year ground lease with USD Presidio Associates, LLC for the development, construction, operation, and maintenance of an approximately 700-bed student residential community on land owned by the University. Under the agreement, the lessee is responsible for obtaining project financing and for substantially all costs associated with the development, ownership, operation, and maintenance of the project. The project financing does not impose financial obligations on the University, and the University is not obligated to fund project operating deficits.

The University will receive contractual base rent beginning after substantial completion of the project and variable rent based on the project's gross revenue. The residential improvements will be owned by the lessee during the term of the ground lease and will be surrendered to the University upon expiration or earlier termination of the ground lease.

The transaction did not affect the University's financial position or results of activities as of and for the year ended June 30, 2026. Management has not yet determined the full future financial effect of the arrangement.

The University has evaluated subsequent events through October 21, 2026, which is the date the financial statements were issued.

Baker Tilly Advisory Group, LP and Baker Tilly US, LLP, trading as Baker Tilly, are members of the global network of Baker Tilly International Ltd., the members of which are separate and independent legal entities. Baker Tilly US, LLP is a licensed CPA firm that provides assurance services to its clients. Baker Tilly Advisory Group, LP and its subsidiary entities provide tax and consulting services to their clients and are not licensed CPA firms.