Report of Independent Auditors and Consolidated Financial Statements

University of San Francisco

May 31, 2018 and 2017

MOSSADAMS

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Report of Independent Auditors

To the Board of Trustees
University of San Francisco

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the University of San Francisco (the "University"), which comprise the consolidated statements of financial position as of May 31, 2018 and 2017, and the related consolidated statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the University of San Francisco as of May 31, 2018 and 2017, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Moss Adams LLP

San Francisco, California
October 8, 2018

Consolidated Financial Statements

University of San Francisco
Consolidated Statements of Financial Position
May 31, 2018 and 2017
(In thousands)

	2018	2017
Assets		
Cash and cash equivalents	$ 64,814	$ 89,501
Receivables		
Student accounts, net	3,005	3,684
Contributions, net	43,403	30,354
Student loans, net	9,080	9,589
Other	17,034	15,565
Investments	452,406	392,378
Beneficial interest in trusts	11,317	12,123
Prepaid expenses and other assets	8,317	6,934
Property, plant, and equipment, net	452,313	429,877
Total assets	$ 1,061,689	$ 990,005
Liabilities		
Accounts payable and accrued liabilities	$ 52,539	$ 49,226
Deferred revenue	29,378	30,684
Liability under split-interest agreements	1,936	1,981
Liability under interest rate swap agreements	10,156	14,496
Bonds payable, net	105,832	137,008
Notes payable, net	49,301	19,974
Federal student loan funds refundable	9,860	10,818
Total liabilities	259,002	264,187
Net Assets		
Unrestricted	454,439	427,041
Temporarily restricted	162,991	129,637
Permanently restricted	185,257	169,140
Total net assets	802,687	725,818
Total liabilities and net assets	$ 1,061,689	$ 990,005

See accompanying notes.

University of San Francisco
Consolidated Statement of Activities and Changes in Net Assets
Year Ended May 31, 2018
(In thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND OTHER SUPPORT				
Tuition and fees	$ 420,566	$ -	$ -	$ 420,566
Auxiliary revenue - residence and dining fees	34,348	-	-	34,348
Less financial aid to students	(119,829)	-	-	(119,829)
Net student tuition and fees	335,085	-	-	335,085
Grants and contracts	4,831	-	-	4,831
Investment income	2,678	1,564	-	4,242
Contributions	12,549	7,763	15,960	36,272
Net realized and unrealized gain on investments	15,038	39,422	-	54,460
Change in value of split-interest agreements	-	1,234	157	1,391
Change in value of interest rate swap agreements	4,340	-	-	4,340
Auxiliary revenue - other	9,534	-	-	9,534
Other	6,116	-	-	6,116
Net assets released from restrictions	16,629	(16,629)	-	-
Total revenues and other support	406,800	33,354	16,117	456,271
EXPENSES				
Instruction	184,048	-	-	184,048
Research	2,828	-	-	2,828
Public service	2,724	-	-	2,724
Academic support	36,585	-	-	36,585
Student services	53,342	-	-	53,342
Institutional support	63,893	-	-	63,893
Auxiliary enterprises	35,982	-	-	35,982
Total expenses	379,402	-	-	379,402
INCREASE IN NET ASSETS	27,398	33,354	16,117	76,869
NET ASSETS, beginning of year	427,041	129,637	169,140	725,818
NET ASSETS, end of year	$ 454,439	$ 162,991	$ 185,257	$ 802,687

See accompanying notes.

University of San Francisco
Consolidated Statement of Activities and Changes in Net Assets
Year Ended May 31, 2017
(In thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND OTHER SUPPORT				
Tuition and fees	$ 402,804	$ -	$ -	$ 402,804
Auxiliary revenue - residence and dining fees	34,023	-	-	34,023
Less financial aid to students	(104,653)	-	-	(104,653)
Net student tuition and fees	332,174	-	-	332,174
Grants and contracts	4,338	-	-	4,338
Investment income	1,706	1,232	-	2,938
Contributions	7,328	2,437	13,917	23,682
Net realized and unrealized gain on investments	10,453	24,664	-	35,117
Change in value of split-interest agreements	-	1,342	610	1,952
Change in value of interest rate swap agreements	3,742	-	-	3,742
Auxiliary revenue - other	7,815	-	-	7,815
Other	6,023	-	-	6,023
Net assets released from restrictions	13,475	(13,475)	-	-
Total revenues and other support	387,054	16,200	14,527	417,781
EXPENSES				
Instruction	181,518	-	-	181,518
Research	2,708	-	-	2,708
Public service	2,248	-	-	2,248
Academic support	36,527	-	-	36,527
Student services	50,068	-	-	50,068
Institutional support	61,481	-	-	61,481
Auxiliary enterprises	32,844	-	-	32,844
Total expenses	367,394	-	-	367,394
INCREASE IN NET ASSETS	19,660	16,200	14,527	50,387
NET ASSETS, beginning of year	407,381	113,437	154,613	675,431
NET ASSETS, end of year	$ 427,041	$ 129,637	$ 169,140	$ 725,818

See accompanying notes.

(In thousands)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	$ 76,869	$ 50,387
Adjustment to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	22,506	22,018
Accretion of asset retirement obligation liability	(52)	(37)
Amortization of bond issuance costs	497	580
Amortization of lease intangibles	89	139
Provision for bad debt	308	242
Change in discount on contribution receivable	1,234	(165)
Forgiveness of employee notes	44	47
Net realized and unrealized gain on investments	(54,460)	(35,117)
Change in value of split-interest agreements	(1,391)	(1,952)
Change in value of interest rate swap agreements	(4,340)	(3,742)
Loss on disposal of assets	642	205
Loss on advanced refunding of debt	4,009	-
Contributions restricted for investment in endowment and plant	(6,526)	(17,126)
Distributions of interest in trusts	1,897	4,661
Changes in:		
Student accounts receivable	331	(1,654)
Contributions receivable	(14,167)	3,701
Other receivables	(1,548)	(8,848)
Prepaid expenses and other assets	(1,462)	(330)
Accounts payable and accrued liabilities	3,365	1,744
Liability under split-interest agreements	516	64
Deferred revenue	(1,306)	1,599
Net cash provided by operating activities	27,055	16,416
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property, plant, and equipment	(45,707)	(26,936)
Proceeds from disposal of assets	113	275
Proceeds from sale of investments	228,388	139,611
Purchases of investments	(234,217)	(134,809)
Issuance of student loans	(1,244)	(1,591)
Student loan repayments	1,677	1,704
Issuance of employee notes	(225)	(227)
Employee notes repayments	260	695
Net cash used in investing activities	(50,955)	(21,278)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of notes payable	26,800	-
Advanced refunding of debt	(26,820)	-
Payments on bonds payable	(4,835)	(4,125)
Payments on notes payable	(1,500)	(1,500)
Contributions restricted for investment in endowment and plant	6,526	17,126
Net change in federal student loan funds refundable	(958)	285
Net cash (used in) provided by financing activities	(787)	11,786
NET CHANGE IN CASH AND CASH EQUIVALENTS	(24,687)	6,924
CASH AND CASH EQUIVALENTS, beginning of year	89,501	82,577
CASH AND CASH EQUIVALENTS, end of year	$ 64,814	$ 89,501
SUPPLEMENTAL DISCLOSURE OF CASH-FLOW INFORMATION		
Interest paid	$ 7,122	$ 7,916
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES		
Additions to property, plant, and equipment included in accounts payable and accrued liabilities	$ 1,901	$ 1,489

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

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

On June 11, 2017, the University of San Francisco purchased real property and certain business assets. The purchase included acquisition of a sole proprietary organic farm business, growing and selling agricultural products, known as Star Route Farms. Star Route Farms was incorporated on June 20, 2017, as Star Route Farms, LLC ("Star Route"). The University of San Francisco is sole member of Star Route and manages its operating activity. Star Route's financial information has been consolidated with the University of San Francisco (collectively referred to as the "University").

Basis of accounting – The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("generally accepted accounting principles"), which include the principles of not-for-profit accounting as defined by the Financial Accounting Standards Board ("FASB"). The accounting principles require that revenues within the appropriate net asset category and that classification of net assets and associated revenues, gains, and losses be divided into three categories, based on the existence or absence of externally imposed restrictions. Accordingly, net assets of the University are classified and defined as follows:

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

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

Permanently restricted net assets – Permanently restricted net assets result from contributions the use of which is limited by donor-imposed stipulations that neither expire with the passage of time nor can be fulfilled or otherwise removed by actions of the University. The earnings from these investments are primarily available to support activities of the University as designated by the donor.

Principles of consolidation – The consolidated financial statements include all the accounts of the University of San Francisco and Star Route. All significant intercompany transactions and balances have been eliminated in consolidation.

Cash and cash equivalents – Cash and cash equivalents include cash on deposit, money market funds, fixed-income securities with a maturity of three months or less, and variable rate demand notes that have a put feature that allows the University to put the notes back to the issuer on the daily interest reset date. The University holds cash and cash equivalents at several major financial institutions, which during the course of the year may exceed the amounts insured by the Federal Depository Insurance Corporation ("FDIC").

Student accounts receivable – Student accounts receivable are amounts due from students primarily for tuition and fees and are stated at the amount billed to students less applied scholarships and loan proceeds. The University offers several payment plans that allow students to defer payment for a nominal fee. Late fees are charged on delinquent accounts. The University records an allowance for doubtful student accounts receivable that is based on various factors, such as historical collection information and existing economic conditions. Delinquent accounts are written off based on evaluation of the student's specific circumstances. Student accounts receivable totaled $4,403,000 and $5,006,000 as of May 31, 2018 and 2017, respectively. Student accounts receivable allowance for bad debt is estimated as $1,398,000 and $1,322,000 as of May 31, 2018 and 2017, respectively.

Student loans receivable – Student loans receivable are primarily amounts loaned to students under the Federal Perkins Loan Program, Nursing Student Loans, and the Nursing Faculty Loan Program 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. The University records an allowance for doubtful student loans receivable based on historical collection information and existing economic conditions.

As of October 1, 2017, under Federal law, all institutions of higher education, including 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. Concurrently, as of July 1, 2017, all institutions of higher education, including the University, may not disburse Perkins loans to graduate students.

Other receivables – Other receivables consist of federal direct loans that were disbursed to students but have not been received from the U.S. Department of Education, grants receivable, rent receivable, employee notes receivable, and other miscellaneous receivables. The University believes these amounts are fully collectible. The most significant portion of other receivables is the federal direct loan amount, totaling $11,792,000 and $11,269,000 as of May 31, 2018 and 2017, respectively.

Investments – Investments are stated at fair value and represent a diversified portfolio of equity and fixed-income investments, equity funds, private capital, real asset funds, hedge funds, and real estate. Investments received through gifts are recorded at fair value on the date of donation.

The University is subject to accounting principles that define fair value, establish a framework for measuring fair value, and prescribe disclosures about fair value measurements. The accounting principles also establish a hierarchical disclosure framework, which prioritizes and ranks the level of market price observability used in measuring investments at fair value. Market price observability is impacted by a number of factors, including the type of investment and the characteristics specific to the investment. Investments with readily available active quoted prices or for which fair value can be measured from actively quoted prices will generally have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

The categorization of an investment within the hierarchy is based on the pricing transparency of the investment and does not necessarily correspond to the University's perceived risk of that investment. Investments measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 – Quoted prices are available in active markets for identical investments as of the reporting date. This category includes active exchange-traded money market funds, fixed income investments, equity securities, and short-term investments.

Level 2 – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date. Level 2 values have been determined by management of the University utilizing observable data that is readily available, regularly updated, reliable and verifiable, not proprietary, and provided by sources that are actively involved in the relevant market. This category includes fixed income investments and variable rate demand notes. Fair values for these investments are estimated by the University using valuation methodologies that consider a range of factors, including, but not limited to, trading values on public exchanges for comparable securities, and interest rates.

Level 3 – Pricing inputs are unobservable and include situations where there is little, if any, market activity for the investment. Level 3 values have been estimated by management of the University in the absence of readily ascertainable market values. Fair values for these investments are estimated by the University using valuation methodologies that consider a range of factors, including, but not limited to, the price at which the investment was acquired, the nature of the investment, local market conditions, independent appraisals, trading values on public exchanges for comparable securities, current and projected operating performance, financial condition, and financing transactions subsequent to the acquisition of the investment. The inputs into the determination of fair value require significant judgment by the University. Due to the inherent uncertainty of these estimates, these values may differ materially from the values that would have been used had a ready market for these investments existed.

The real estate investments are stated at estimated fair value and are independently appraised once per year by an external appraiser. Each property is fully appraised every three years with exterior-only inspection appraisals in the interim years. The University's management annually reviews these independent appraisals. The appraisals use a sales comparison approach, which compares recent transactions to the appraised property and takes into consideration such factors as location, condition, and quality. Adjustments are made for dissimilarities, which typically provide a range of values. Significant building renovations and improvements that extend the useful life of or improve the assets are capitalized. Expenditures for ordinary maintenance and repairs are charged to expense as incurred.

A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The University's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment.

The University uses the net asset value ("NAV") as a practical expedient to determine the fair value of all investments, which (a) do not have a readily determinable fair value and (b) prepare their consolidated financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company.

The majority of the University's investments are held through limited partnerships and commingled funds for which fair value is estimated using NAV reported by fund managers as a practical expedient. Such assets are not classified in the fair value hierarchy.

In determining the reasonableness of the methodology, finance and investment staff under the supervision of the Vice President for Business and Finance evaluates a variety of factors including review of economic conditions, individual investment managers, and developments within the industries. Policies and procedures are reassessed at least annually, or as new assets are acquired, to determine if the current valuation techniques are still appropriate. At that time, the unobservable inputs used in the fair value measurements are evaluated and adjusted as necessary based on current market conditions and other third-party information.

Beneficial interest in trusts and split-interest gifts – The University has an irrevocable remainder beneficiary interest in charitable remainder trusts and charitable gift annuities the maturities of which are based on the life expectancies of the income beneficiaries or a specified term of years. Trusts and annuities in which the University is both trustee and remainder beneficiary are recorded at the fair value of the assets in the trusts. The corresponding liability for certain future amounts due to beneficiaries is recorded at the present value of the annuity payments. The present value discount rate used for all trusts and annuities was an average of 2.99% and 2.98% at May 31, 2018 and 2017, respectively.

As of May 31, 2018 and 2017, investments in marketable securities include $4,413,000 and $4,397,000, respectively, in assets held by the University, as trustee, on which investment income is paid to designated beneficiaries until death, at which time the assets may be used by the University as designated by the donor. Liabilities to such beneficiaries of $1,936,000 and $1,981,000 are included in liability under split-interest agreements as of May 31, 2018 and 2017, respectively.

Trusts for which the University does not act as trustee are recorded at the present value of the assets to be received in the future. The present value discount used for all trusts and annuities was an average of 4.28% and 4.11% at May 31, 2018 and 2017, respectively. The University holds a beneficial interest in trusts where the University is not the trustee, amounting to $11,317,000 and $12,123,000 as of May 31, 2018 and 2017, respectively. Beneficial interest in trusts and split-interest gifts are valued under the income approach calculated using a discounted cash-flow analysis based on the expected cash flows over the remaining life of each respective beneficial interest, utilizing risk-free rate adjusted for the inherent risk of the assets held and the risk of nonperformance. The primary unobservable inputs for beneficial interests in split-interest gifts are the applicable discount rates that range from 1.60% to 6.20% and applicable life expectancies.

Collections – The University's collections are made up of rare books, artwork, and artifacts of historical significance that are held for educational, research, and curatorial purposes. The collections, which have been acquired through purchases and contributions since the University's inception, are not recognized as assets in the accompanying consolidated statements of financial position.

Property, plant, and equipment – Purchased assets are recorded at cost. Donated assets are recorded at fair value or appraised value on the date of donation. The carrying value of all long-lived assets is evaluated periodically to determine whether adjustment to the useful life or to the undepreciated balance is warranted. The cost of major improvements in excess of $100,000, purchases of depreciable items in excess of $5,000, software purchases exceeding $50,000, and certain computer equipment are capitalized.

Upon acquisition of a property, the University estimates the fair value of acquired tangible assets (consisting of land, buildings, and improvements), and intangible assets and liabilities (consisting of above and below market leases and origination value of all in-place leases). The University determines fair values using replacement cost, estimated cash-flow projections and other valuation techniques, and applying appropriate discount and capitalization rates based on available market information.

Depreciation is recorded on the straight-line basis using the following useful lives:

Buildings and improvements	10–50 years
Furniture and equipment	3–10 years
Leases	Lease term
Library books	20–50 years
Tenant improvements	Shorter of lease term or useful life

Medical benefits – The University is self-insured for one of its employee medical plans up to a stop-loss limit of $150,000 per individual as of May 31, 2018 and 2017, and a 125% aggregate excess. As of May 31, 2018 and 2017, an estimated liability for payment of incurred and unpaid claims of $1,431,000 and $1,016,000, respectively, is included in accrued liabilities in the accompanying consolidated statements of financial position.

Workers' compensation – The University insures its workers' compensation benefits through a third-party insurer with a high deductible policy that contains a $250,000 per claim deductible. As of May 31, 2018 and 2017, an estimate of uninsured losses of $627,000 and $784,000, respectively, is included in accrued liabilities in the accompanying consolidated statements of financial position.

Multiemployer pension plans – The University contributes to a multiemployer defined benefit pension plan under the terms of a collective bargaining agreement, which expires September 30, 2021, that covers certain union-represented employees. The University's collective bargaining agreement does not require that a minimum contribution be made to these plans. For the years ended May 31, 2018 and 2017, the University contributed to the union trust and charged to expense $616,000 and $652,000, respectively.

The risks of participating in multiemployer pension plans are different from single employer pension plans in the following aspects:

a. Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.
b. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
c. If the University stops participating in its multiemployer pension plan, the University may be required to pay the plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

The University's participation in this plan for the year ended May 31, 2018, is outlined in the table below. All information in the table is as of May 31, of the relevant year. The "EIN-PN" column provides the Employer Identification Number ("EIN") and the Plan Number ("PN"). The most recent Pension Protection Act zone status available in 2018 and 2017 is for the plan years ended December 31, 2017 and 2016, respectively. The zone status is based on information that the University received from the plan. Among other factors, generally, plans in critical status ("yellow zone" or "orange zone") are less than 80% funded, and plans at least 80% funded are said to be in the "green zone." The "FIP/RP status pending/implemented" column indicates plans for which a funding improvement plan ("FIP") or a rehabilitation plan ("RP") is either pending or has been implemented by the trustees of each plan. Information related to the impact of utilization of extended amortization periods on zone status is either not available or not obtainable without undue cost and effort. There have been no significant changes that affect the comparability of 2018 and 2017 contributions.

		Pension Protection Act Zone Status		Are the University's Contributions More than 5% of Total Plan Contributions?		FIP/RP Status Pending/ Implemented
Pension Fund	**EIN-PN**	**2018**	**2017**	**2018**	**2017**	
I. U. O. E. Stationary Engineers Local 39 Pension Plan	94-6118939 - Plan 001	Green	Green	No	No	N/A

Asset retirement obligation – Asset retirement obligations include environmental obligations associated with the retirement of long-lived assets. These liabilities are recorded at fair value when incurred and are capitalized by increasing the carrying amount of the associated long lived asset. Over time, the liability is accreted to its present value each period and the capitalized cost is depreciated on a straight-line basis through the estimated date of retirement. The liability is removed when the obligation is settled.

Derivative financial instruments – Derivative financial instruments are used by the University on a limited basis to manage interest rate risk associated with its tax-exempt bonds. Derivative financial instruments are recorded at their fair value in the liabilities section in the accompanying consolidated statements of financial position (disclosed in Note 7). Changes in the underlying value of derivative financial instruments are recorded in change in value of interest rate swap agreements in the accompanying consolidated statements of activities and changes in net assets. The University does not enter into derivative contracts for the purpose of speculation.

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

Federal student loan funds refundable – Funds provided by the U.S. government under the Federal Perkins Loan Program, Nursing Student Loans, and the Nursing Faculty Loan Program are loaned to qualified students and may be reloaned after collection. These funds are ultimately refundable to the government and are, therefore, recorded as a liability in the accompanying consolidated statements of financial position.

Fair value of financial instruments – The fair value of an investment is the amount that would be received to sell the investment in an orderly transaction between market participants at the measurement date (i.e., the exit price). For cash and cash equivalents, student accounts and other receivables, accounts payable, and accrued liabilities the carrying amounts approximate fair value because of the short maturity of these financial instruments.

Investments are reflected in the accompanying consolidated statements of financial position at their fair value as required under generally accepted accounting principles and as discussed above.

Contributions receivable and beneficial interest in trusts approximate fair value because such assets are recorded at estimated net present value based on anticipated future cash flows. The fair value of bonds and the notes payable and interest rate swap agreements (disclosed in Note 7 and Note 8) is determined based on the University's discounted cash-flow analysis and comparison with similar financial instruments in the marketplace having similar interest rate and maturity structures. Given the significant restrictions, varying interest rates, and repayment terms on student loans receivable and federal student loan funds, it is not practicable to estimate the fair value of such amounts.

Revenues and other support – Revenues and other support are reported as increases in unrestricted net assets unless their use is limited by donor-imposed restrictions as follows:

Tuition and fees – Tuition and fee revenue is reported in the fiscal year in which it is earned. Monies received in advance of services provided are reported as deferred revenue. Institutional financial aid applied to charges for tuition, room, and board is reflected as a reduction of tuition and fee revenue.

Contributions – Contributions are recognized as revenue when they are received or unconditionally pledged. When a donor restriction on a contribution expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities and changes in net assets as net assets released from restrictions. Contributions for which restrictions are met in the same period in which the unconditional pledge is received are recorded as unrestricted revenue.

Contributions receivable are recorded at the present value of expected future cash flows, discounted using a risk-free interest rate of 2.68% and 1.75% as of May 31, 2018 and 2017, respectively. The discount is amortized annually and recognized as revenue. In-kind gifts, such as donated materials, supplies, or other nonfinancial assets, are recorded as assets and at fair value on the date of the gift. Conditional promises to give are not included as revenue until the conditions are substantially met. The University records an allowance for doubtful contributions receivable based on historical collection information and existing economic conditions.

Contributions receivable includes amounts due to the University through bequests. The University recognizes contribution revenue from bequests when the University has the legal right to the assets and has a basis for estimating the fair value of the assets.

Contributions of land, buildings, or equipment are reported as unrestricted support unless the donor places restrictions on their use. Contributions of cash or other assets that must be used to acquire long-lived assets are reported as increases in temporarily restricted net assets until the capital expenditure is incurred.

Investment income and net realized and unrealized gains on investment – Interest income is recorded on the accrual basis of accounting. Dividends are reported on the ex-dividend date. Purchases and sales of investments are recorded on the trade date.

Dividends, interest, and net realized and unrealized gains on investments of endowments are reported as increases in permanently restricted net assets if the terms of the gift require that they be added to the principal of a permanent endowment fund; as increases in temporarily restricted net assets if the terms of the gift impose restrictions on the current use of the income or net gains; and as increases in unrestricted net assets in all other cases.

Auxiliary revenue – Auxiliary revenue includes a variety of services that enhance the quality of student life on campus. These revenues are reported in two sections of the consolidated statement of activities. Fees for housing and dining services are reported along with tuition and fees, net of financial aid, to arrive at net student tuition and fee revenue. Other auxiliary revenues, which include bookstore and food service commissions, space rental, parking and recreational center fees, and intercollegiate athletic ticket revenue, are reported separately.

Functional expense allocations – Program expenses are allocated by function as follows:

a. Instruction, which includes the costs directly related to teaching and instruction
b. Research, which includes the costs to produce research, whether external or institutional funded
c. Public service, which includes non-instructional services beneficial to individuals and groups external to the institution such as institutes and community service organizations
d. Academic support, which includes libraries, media service, and academic administration
e. Student services, which include financial aid administration, registrar, admissions, and student health promotions
f. Institutional support, which includes general administration, fiscal operations, information technology services, human resources, and development
g. Auxiliary enterprises, which include the operations of the University's residence halls, bookstore, and food service

Depreciation, interest, and operation and maintenance of plant expenses are allocated among program and supporting services based on allocation methods (including square footage) and estimates made by the University's management.

Use of estimates – The preparation of the consolidated financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Tax-exempt status – The University of San Francisco, including its wholly owned entity, Star Route, is a nonprofit corporation that qualifies under the provisions of Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes on related activities. The University is, however, subject to federal and state income tax on unrelated business income and appropriate provision for any such taxes is included in the accompanying consolidated financial statements. The University evaluates its income tax position each fiscal year to determine whether the University's tax position is more likely than not to be sustained if examined by the applicable taxing authority. The evaluation had no material impact on the University's consolidated financial statements.

New accounting pronouncements – In May 2014, the FASB issued Accounting Standards Updates ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("ASU 2014-09"). The amendments in ASU 2014-09 affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (e.g., insurance contracts or lease contracts). This ASU will supersede the revenue recognition requirements in *Topic 605, Revenue Recognition*, and most industry-specific guidance, and creates a *Topic 606 Revenue from Contracts with Customers*. The adoption of ASU 2014-09 is effective for the University beginning June 1, 2018. Management is currently evaluating the impact of the provisions of ASU No. 2014-09 on the consolidated financial statements.

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* ("ASU 2016-01"), which enhances the reporting model for financial instruments to provide users of financial statements with more decision-useful information. The update addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. ASU 2016-01 is effective for the University for fiscal year ending May 31, 2020. Management is currently evaluating the impact of the provisions of ASU 2016-01 on the consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* ("ASU 2016-02"), which increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the statement of financial position and disclosing key information about leasing arrangements in the financial statements of lessees. ASU 2016-02 is effective for the University for fiscal year ending May 31, 2020. Management is currently evaluating the impact of the provisions of ASU 2016-02 on the consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958)*: *Presentation of Financial Statements of Not-for-Profit Entities* ("ASU 2016-14"), which improves the current net asset classification requirements and the information presented in financial statements and notes about an entity's liquidity, financial performance, and cash flows. The update removes the requirement to present three classes of net assets with two classes, net assets with donor restrictions and net assets without donor restrictions. The update also removes the requirement to present or disclose the indirect method (reconciliation) if using the direct method for the statement of cash flows as well as added several additional enhanced disclosures to the notes. ASU 2016-14 is effective for the University for the fiscal year ending May 31, 2019. Management is currently evaluating the impact of the provisions of ASU 2016-14 on the consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments* ("ASU 2016-15"), which provides guidance on eight specific cash flow issues including: debt repayment or debt extinguishment costs, settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing, contingent consideration payments made after a business combination, proceeds from settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance policies, distributions received from equity method investees, beneficial interests in securitization transactions, and separately identifiable cash flows and application of the predominance principle. ASU 2016-15 is effective for the University for fiscal year ending May 31, 2020. Management is currently evaluating the impact of the provisions of ASU 2016-15 on the consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash* ("ASU 2016-18"), which requires the statement of cash flows to explain the change during the period in the total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. ASU 2016-18 is effective for the University for fiscal year ending May 31, 2020. Management is currently evaluating the impact of the provisions of ASU 2016-18 on the consolidated financial statements.

In June 2018, the FASB issued ASU No. 2018-08, *Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* ("ASU 2018-08"), which clarifies and improves the scope and accounting guidance around contributions of cash and other assets received and made by not-for-profit organizations and business enterprises. ASU 2018-08 is effective for the University for fiscal year ending May 31, 2020. Management is currently evaluating the impact of the provisions of ASU 2018-08 on the consolidated financial statements.

NOTE 2 – CONTRIBUTIONS RECEIVABLE

Contributions receivable as of May 31, consisted of amounts expected to be collected in:

	2018	2017
	(In thousands)	
Less than one year	$ 13,561	$ 7,090
One to five years	19,033	21,287
More than five years	14,727	4,777
Total	47,321	33,154
Less allowance for uncollectible contributions	(1,456)	(1,228)
Less unamortized discount	(2,462)	(1,572)
	(3,918)	(2,800)
Contributions receivable, net	$ 43,403	$ 30,354

NOTE 3 – CREDIT QUALITY OF FINANCING RECEIVABLES

Student loans – The University makes uncollateralized loans to students based on financial need. Student loans are funded through federal government loan programs or institutional resources.

Student loans consisted of the following at May 31:

	2018	2017
	(In thousands)	
Federal government programs	$ 9,630	$ 10,061
Institutional programs	95	97
Student loans receivable	9,725	10,158
Less allowance for doubtful accounts:		
Beginning of year	(569)	(588)
(Increases) decreases	(76)	15
Write-offs	-	4
End of year	(645)	(569)
Student loans receivable, net	$ 9,080	$ 9,589

Allowances for doubtful accounts are established based on prior collection experience and current economic factors which, in management's judgment, could influence the ability of loan recipients to repay the amounts per the loan terms. Institutional loan balances are written off when they are deemed by management to be permanently uncollectible.

Faculty and staff loans – The University provides home mortgage financing assistance to certain faculty and senior staff. Notes receivable amounting to $1,466,000 and $1,545,000 were outstanding at May 31, 2018 and 2017, 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 prior collection history. These amounts are included in other receivables in the accompanying consolidated statements of financial position.

NOTE 4 – INVESTMENTS

Investments as of May 31, consisted of the following:

	2018	2017
	(In thousands)	
Equity securities	$ 106,698	$ 96,294
Equity funds	32,268	22,893
Fixed-income investments	58,954	66,452
Short-term investments	1	278
Real estate	32,350	31,717
Alternative investments:		
Equity funds	72,530	42,467
Private capital	74,707	48,217
Real asset funds	12,372	12,899
Hedge funds	62,526	71,161
	$ 452,406	$ 392,378

Net realized and unrealized gain on investments as of May 31, 2018 and 2017, include management fees of approximately $2,931,000 and $2,911,000, respectively.

Investments, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the near term could materially affect account balances and the amounts reported in the accompanying consolidated financial statements.

NOTE 5 – FAIR VALUE MEASUREMENTS

The financial assets and liabilities carried on the accompanying consolidated statements of financial position by level within the valuation hierarchy as of May 31, 2018 and 2017, were as follows:

	Fair Value Measurements 2018				
	Measured at NAV	Level 1	Level 2	Level 3	Total
			(In thousands)		
Assets					
Cash equivalents - Variable rate demand notes	$ -	$ 10,331	$ 15,253	$ -	$ 25,584
Investments:					
Equity securities	$ 705	$ 105,993	$ -	$ -	$ 106,698
Equity funds	32,268	-	-	-	32,268
Fixed-income investments	12,759	16,096	30,099	-	58,954
Short-term investments	-	1	-	-	1
Real estate	-	-	-	32,350	32,350
Alternative investments:					
Equity funds	72,530	-	-	-	72,530
Private capital	60,488	-	-	14,219	74,707
Real asset funds	12,372	-	-	-	12,372
Hedge funds	62,526	-	-	-	62,526
Total investments	253,648	122,090	30,099	46,569	452,406
Beneficial interest in trusts	-	-	-	11,317	11,317
Total fair value of assets presented	$ 253,648	$ 132,421	$ 45,352	$ 57,886	$ 489,307
Liabilities					
Interest rate swap agreements	$ -	$ -	$ 10,156	$ -	$ 10,156
Total fair value of liabilities presented	$ -	$ -	$ 10,156	$ -	$ 10,156

	Fair Value Measurements 2017				
	Measured at NAV	Level 1	Level 2	Level 3	Total
	(In thousands)				
Assets					
Cash equivalents - Variable rate demand notes	$ -	$ 33,971	$ 15,076	$ -	$ 49,047
Investments:					
Equity securities	$ 691	$ 95,603	$ -	$ -	$ 96,294
Equity funds	22,893	-	-	-	22,893
Fixed-income investments	12,771	13,084	40,597	-	66,452
Short-term investments	-	278	-	-	278
Real estate	-	-	-	31,717	31,717
Alternative investments:					
Equity funds	42,467	-	-	-	42,467
Private capital	48,217	-	-	-	48,217
Real asset funds	12,899	-	-	-	12,899
Hedge funds	71,161	-	-	-	71,161
Total investments	211,099	108,965	40,597	31,717	392,378
Beneficial interest in trusts	-	-	-	12,123	12,123
Total fair value of assets presented	$ 211,099	$ 142,936	$ 55,673	$ 43,840	$ 453,548
Liabilities					
Interest rate swap agreements	$ -	$ -	$ 14,496	$ -	$ 14,496
Total fair value of liabilities presented	$ -	$ -	$ 14,496	$ -	$ 14,496

The quantitative information about significant unobservable inputs related to Level 3 direct investments in real estate fair value measurements used at May 31, 2018, was as follows:

	Fair Value (In thousands)	Valuation Techniques	Unobservable Inputs	Range (Weighted-Average)
Residential real estate	$ 28,300	Sales comparable	Price per square foot	$279.16-$1,038.93 ($831.96)
Commercial real estate (building and land)	3,718	Income approach	Price per square foot	$252.26 ($252.26)
Commercial real estate (fractional ownership, building and land)	332	Income approach	Price per square foot	$663.92 (USF share $124.48)
	$ 32,350			

The changes in investments classified as Level 3 were as follows for the years ended May 31, 2018 and 2017:

	2018		
	Real Estate	Private Capital (In thousands)	Total
Balance, May 31, 2017	$ 31,717	$ -	$ 31,717
Total realized and unrealized gain	633	13,188	13,821
Purchases /additions	-	-	-
Sales	-	(51)	(51)
Transfers in and/or out of Level 3	-	1,082	1,082
Balance, May 31, 2018	$ 32,350	$ 14,219	$ 46,569
Unrealized gains included in the changes in net assets relating to Level 3 investments still held at May 31, 2018	$ 633	$ 13,675	$ 14,308

	2017
	Real Estate (In thousands)
Balance, May 31, 2016	$ 34,145
Total unrealized gain	825
Purchases /additions	-
Sales	(2,772)
Transfers in and/or out of Level 3	(481)
Balance, May 31, 2017	$ 31,717
Unrealized gains included in the changes in net assets relating to Level 3 investments still held at May 31, 2017	$ 534

Total unrealized gains recorded for Level 3 investments are reported in net realized and unrealized gain (loss) on investments in the consolidated statements of activities and changes in net assets.

The University evaluates its financial assets and liabilities carried on the consolidated statements of financial position by level and transfers between levels based upon its ability to liquidate its investments at May 31, of each fiscal year. There was one transfer from NAV to Level 3, for a limited partnership interest in a venture capital fund that is currently in the process of dissolution due to the expiration of the partnerships term, during the year ended May 31, 2018. There was one transfer from Level 3 to Level 1, for investment funds due to sale of real property, during the year ended May 31, 2017. The University reflects transfers in and out of levels as if the transfer occurred as of the beginning of the reporting period.

Investment strategy and redemption information – The following table summarizes the investment strategy types and various features of the University's alternative investments as of May 31, 2018.

The University has commitments under some of the associated investment agreements to make additional capital contributions as noted:

	2018			
	Fair Value (In thousands)	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Level 3				
Private capital	$ 14,219	-	Not eligible	-
Investments measured at NAV				
Equity securities	705	-	Not eligible	-
Commingled funds:				
Equity funds	32,268	-	Daily	none
Fixed-income investment	12,759	-	Daily	none
Alternative investments:				
Equity funds	72,530	-	Daily, monthly, quarterly, over 3 years	6-60 days
Private capital	60,488	40,426	Not eligible	-
Real asset funds	12,372	3,385	Not eligible	-
Hedge funds	62,526	-	Monthly, quarterly, annually, over 3 years	45-120 days
	$ 267,867	$ 43,811		

The University holds certain investments in private capital and real assets limited partnerships in the amounts of $74,707,000 and $12,372,000, respectively. These limited partnerships do not allow for periodic redemptions, but rather distributions are received through the liquidation of the underlying assets of the partnership. At May 31, 2018, these partnerships had estimated termination dates that ranged from 2018 to 2030. Within alternative investment equity and hedge funds the University holds $19,197,000 in funds with an annual redemption date and up to 60-day redemption notice period. There are $11,575,000 in funds with a three-year redemption date and up to 120-day redemption notice period and $6,183,000 in funds which allow periodic redemption dates over seven quarters to three years and up to 60-day notification period per redemption. Within the hedge funds, the University holds $103,000 in funds which were in liquidation at May 31, 2018. The University also holds alternative investments in trust and annuity investments and private equity stock shares in the amount of $705,000 with no periodic redemption terms.

Equity funds – The equity fund category encompasses a variety of funds focused on U.S. and international equity strategies with a range of liquidity. These funds can have diversified or sector specific portfolios investing in small-cap, mid-cap, or large-cap equity securities. The category also includes equity index investments, such as the S&P 500 Index and the MSCI EAFE Index. Certain equity funds can invest up to 6% in private equity. Approximately 37% of the funds are redeemable on a daily basis with up to 28 days' notice. Another approximately 57% are redeemable monthly or quarterly with 6 to 45 days of notice after initial lock-ups. The remaining funds allow one-third redemption per year with 60 days of notice. The fair values of the investments in this category have been determined using the net asset value per share of the investment funds.

Hedge funds – The hedge fund category includes both hedged equity and absolute return strategies. The hedged equity funds invest both long and short in global equity securities. The absolute return funds pursue multiple strategies to diversify risk and reduce volatility. The goal of these vehicles is to achieve a positive return regardless of the directions of the broad credit and equity markets. The remaining balance of the category includes other funds with a multi-strategy investment framework, investing primarily in a mix of debt and equity securities, and related derivative contracts. The funds in this category have the ability to shift investment strategies. Investments in the hedge fund category can generally be redeemed on a monthly to quarterly basis, with 45 to 90 days' notice. There are several funds with a redemption frequency of up to 3 years and 120 days' notice. Also, the managers may impose gates or disallow redemptions at their discretion. The fair values of the investments in this category have been determined using the net asset value per share of the investment funds.

Private capital – The private capital category includes funds that invest in a broad range of publicly- and privately-owned domestic and foreign companies. These funds are structured as partnerships in which the University is a limited partner, and each involves a commitment to invest a maximum dollar amount over the term of the partnership. The investment managers request, or "call" the funds from the general and limited partners over the term of the partnership as individual investment opportunities are identified. Therefore, there is a period of time for each of these funds during which the committed amount is not yet invested or "called." These investments cannot be redeemed. Distributions are received when the underlying assets of the funds are liquidated. The investment periods for these funds typically range from 5-6 years, with the goal of liquidating the entire fund within 10 years. If necessary, funds can typically extend their time to liquidate by 2 additional years in accordance with the terms of the partnership agreement. The University expects the underlying assets within this category will be liquidated over the next 12 years, which includes likely extension agreements. The fair values of the investments in this category have been determined using the University's ownership interest in partners' capital to which a proportionate share of net assets is attributed as of the most recent quarter end, and have been adjusted for cash transactions and estimated valuation changes of similar publicly traded asset portfolios through the University's fiscal year end.

The private capital category includes venture capital, private debt, buyout, multi-strategy funds, and fund-of-funds. Venture capital funds represent approximately 60% of the private capital category. These venture capital funds invest in small domestic and foreign companies in the technology or life sciences sector. Private debt funds, which consist mainly of distressed debt and mezzanine debt funds that invest in both domestic and foreign companies, represent approximately 11% of the private capital category. Buyout funds, which represent approximately 23% of the category, invest in small-cap, mid-cap, or large-cap companies across a range of industries. The remaining balance of the category consists of multi-strategy funds and fund-of-funds that invest in a mix of domestic and foreign venture capital and private equity funds across a range of industries.

Real assets – The real asset category consists of investments in real estate funds and natural resource funds. The University's portfolio of real estate funds is diversified between commercial and residential properties and is diversified geographically. The natural resource funds are invested mainly in the energy sector. All of the real asset funds are structured as partnerships in which the University is a limited partner. Similar to the University's private capital investments, these investments cannot be redeemed. Distributions are received when the underlying assets of the funds are liquidated. The University expects the underlying assets within this category will be liquidated over the next 10 years, which includes likely extension agreements. The fair values of the real estate funds and natural resource funds have been determined using the University's ownership interest in the partners' capital to which a proportionate share of net assets is attributed as of the most recent quarter end, and have been adjusted for cash transactions and estimated valuation changes of similar publicly traded asset portfolios through the University's fiscal year end.

NOTE 6 – PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment as of May 31, consisted of the following:

	2018	2017
	(In thousands)	
Buildings and improvements	$ 485,636	$ 464,366
Construction in progress	25,581	17,985
Furniture and equipment	48,959	46,526
Land and land improvements	50,060	41,934
Library books and collections	81,679	80,397
Property, plant, and equipment - total	691,915	651,208
Less accumulated depreciation	(239,602)	(221,331)
Property, plant, and equipment - net	$ 452,313	$ 429,877

On June 11, 2017, the University purchased real property and certain business assets in Bolinas, California for $10,300,000 related to the acquisition of Star Route. At acquisition date, the University recorded estimated value of the assets acquired as follows: $7,052,000 in land, $3,098,000 in buildings and $150,000 in vehicles.

NOTE 7 – BONDS PAYABLE

Bonds payable consist of tax-exempt borrowings issued through the California Educational Facilities Authority ("CEFA") in the form of either fixed rate or variable rate revenue bonds. The University has issued CEFA revenue bonds to finance the construction, renovation, and equipping of certain educational facilities; to pay certain costs of issuance; and to refund or decease prior bond issues. Bonds payable as of May 31, consisted of the following:

	2018	2017
	(In thousands)	
California Educational Facilities Authority:		
Revenue bonds:		
CEFA Series 2017; variable interest rate, principal due annually beginning May 1, 2017, and applicable interest due monthly in varying amounts through 2035; secured by the University's assets	$ 70,990	$ 73,325
CEFA Series 2011; fixed interest rates from 3.0% to 6.125%, principal due annually beginning October 1, 2011, and applicable interest due semiannually in varying amounts through 2036; secured by the University's assets	35,450	64,770
	106,440	138,095
Net unamortized premium on bonds payable and cost of issuance	(608)	(1,087)
	$ 105,832	$ 137,008

Aggregate annual maturities of bonds payable are as follows:

Years Ending May 31, (In thousands)	
2019	$ 4,950
2020	5,065
2021	5,295
2022	10,520
2023	3,175
Thereafter	77,435
	$ 106,440

The CEFA 2000, 2003, and 2005B bonds were issued as variable rate bonds, and backed by letters of credit which were in place from February 2011 to April 2017. On April 3, 2017, the University refinanced the Series 2000, 2003, and 2005B bonds with the Direct Purchase of a Non-Bank Qualified Tax Exempt Bond CEFA Series 2017, which eliminated the letters of credit.

In conjunction with the issuance of the CEFA Series 2011 Bonds in February 2011, the University restructured the security for all of its debt, creating a parity debt structure comprised of a pledge of gross unrestricted revenues and a negative pledge on certain buildings and improvements located on the University's main campus.

On December 21, 2017, the University advanced refunded a portion of the CEFA Series 2011 revenue bonds with a tax-exempt loan agreement. The par amount of refunded bonds was $26,820,000. The University has recognized a loss on advanced refunding of debt of $4,009,000 as of May 31, 2018, the amount is included in the consolidated statement of activities and changes in net assets.

The fair values of the CEFA bonds at May 31, 2018 and 2017, were approximately $111,508,000 and $148,099,000, respectively. CEFA bonds are categorized as Level 2 within the fair value hierarchy discussed in Note 1.

The University utilizes interest rate swap agreements to mitigate the risk of changes in interest rates associated with variable interest rate indebtedness. Under the terms of the agreements, the University pays fixed rates ranging from 3.34% to 3.95% to the swap counterparty in exchange for a variable rate ranging from 64% to 67% of 1-month LIBOR on the notional amount. These swap agreements do not qualify as cash-flow hedges, and, as a result, changes in the fair value of the interest rate swap agreements during a period are recognized immediately in change in unrestricted net assets. The fair values of the interest rate swap agreements are based on quotes from the market makers and, therefore, are classified as Level 2 in the fair value hierarchy as shown in Note 5.

The effective interest rate on the University's bonds payable was 4.66% and 3.87% as of May 31 2018 and 2017, respectively.

NOTE 8 – NOTES PAYABLE

On April 18, 2012, the University entered into a $27,500,000 term loan agreement for the purpose of partially reimbursing itself for a recent building acquisition. On July 15, 2015, this term loan agreement was amended to reflect an increased interest rate per annum equal to 3.24% with a revised maturity date of May 1, 2023. The University will continue to repay the bank principal amount in equal annual installments of $1,500,000 on May 1 of each year (began May 1, 2013) until the maturity date of May 1, 2023, when the final principal repayment installment will be repaid. The amended term loan bears interest at a rate per annum equal to 3.24% and is secured by a first priority parity security interest in all of the gross unrestricted revenues of the University.

On December 21, 2017, the University entered into a $31,310,000 tax-exempt loan agreement for the purpose of advance refunding a portion of the CEFA Series 2011 revenue bonds. The University will pay principal monthly at varying amounts beginning on October 1, 2021, until the maturity date of October 1, 2036, when the final principal repayment installment will be repaid. The loan agreement bears interest at a rate per annum equal to 3.15% and is secured by a first priority parity security interest in all of the gross unrestricted revenues of the University.

Notes payable as of May 31, consisted of the following:

	2018	2017
	(In thousands)	
Term loan; fixed interest rate per annum equal to 3.24%; principal due annually beginning May 1, 2013, and applicable interest due quarterly; maturity date through May 1, 2023; secured by a first priority parity interest of all gross unrestricted revenues of the University.	$ 18,500	$ 20,000
Tax-exempt loan agreement; fixed interest rate per annum equal to 3.15%; principal due monthly beginning October 1, 2021, and applicable interest due monthly; maturity date through October 1, 2036; secured by a first priority parity interest of all gross unrestricted revenues of the University.	31,310	-
	49,810	20,000
Net unamortized cost of issuance	(509)	(26)
	$ 49,301	$ 19,974

Aggregate annual maturities of the notes payable is as follows:

Years Ending May 31, (In thousands)	
2019	$ 1,500
2020	1,500
2021	1,500
2022	2,593
2023	14,178
Thereafter	28,539
	$ 49,810

The effective interest rate on the University's notes payable was 3.27% as of May 31, 2018 and 2017.

The fair value of the notes payable at May 31, 2018 and 2017, was approximately $49,127,000 and $21,552,000, respectively. The notes payable is categorized as Level 2 within the fair value hierarchy discussed in Note 1.

NOTE 9 – ENDOWMENTS

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

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

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

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

The following tables present the University's endowment pool composition as of May 31, 2018 and 2017, by type of fund:

	2018			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
		(In thousands)		
Donor-restricted endowment fund	$ -	$ 123,816	$ 165,652	$ 289,468
Board-designated endowment fund	101,124	-	-	101,124
Total endowment funds	$ 101,124	$ 123,816	$ 165,652	$ 390,592

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	(In thousands)			
Donor-restricted endowment fund	$ -	$ 92,700	$ 159,354	$ 252,054
Board-designated endowment fund	90,047	-	-	90,047
Total endowment funds	$ 90,047	$ 92,700	$ 159,354	$ 342,101

The changes in the University's endowments for the years ended May 31, 2018 and 2017, were as follows:

	2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	(In thousands)			
Endowment net assets - May 31, 2017	$ 90,047	$ 92,700	$ 159,354	$ 342,101
Investment income	203	577	-	780
Realized and unrealized gain on investments - net of fees	14,111	40,186	-	54,297
Additions to investment pool	72	-	6,298	6,370
Appropriation of endowment assets for expenditure	(3,309)	(9,647)	-	(12,956)
Change in donor stipulations	-	-	-	-
Endowment net assets - May 31, 2018	$ 101,124	$ 123,816	$ 165,652	$ 390,592

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	(In thousands)			
Endowment net assets - May 31, 2016	$ 78,966	$ 75,519	$ 143,063	$ 297,548
Investment income	358	1,232	-	1,590
Realized and unrealized gain on investments - net of fees	9,234	24,719	-	33,953
Additions to investment pool	4,202	-	16,147	20,349
Appropriation of endowment assets for expenditure	(2,502)	(8,837)	-	(11,339)
Change in donor stipulations	(211)	67	144	-
Endowment net assets - May 31, 2017	$ 90,047	$ 92,700	$ 159,354	$ 342,101

Amounts classified as permanently restricted net assets and temporarily restricted net assets as of May 31, were as follows:

	2018	2017
	(In thousands)	
Permanently Restricted Net Assets		
The portion of permanently restricted net assets not participating in the investment pool that is required to be retained permanently by explicit donor stipulation or UPMIFA.	$ 19,605	$ 9,786
The portion of permanently restricted net assets participating in the investment pool that is required to be retained permanently by explicit donor stipulation or UPMIFA.	165,652	159,354
	$ 185,257	$ 169,140
Temporarily Restricted Net Assets		
Total accumulated appreciation of permanently restricted funds not appropriated for expenditure	$ 123,816	$ 92,700

Endowment funds with deficits – From time to time, the fair value of assets associated with individual donor endowment funds may fall below the value of the initial and subsequent donor gift amounts (deficit). When individual donor endowments decline, temporarily restricted net assets are reduced to the fair value of the original gift. Further reductions in the fair value of the individual donor endowment are classified as a reduction of unrestricted net assets. Such deficits resulted from unfavorable market conditions and authorized appropriations and expenditures that were deemed prudent. The annual appropriation for endowment funds with deficits is returned to corpus rather than released for spending. As of May 31, 2018 and 2017, there were no deficits of this nature reported in unrestricted net assets. Future appreciation of the donor endowment restores the value to the original required level.

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

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

Relationship of spending policy to investment objectives – The spending policy amount of the endowment fund addresses both the funds available for appropriation and the expenses of managing the fund. In determining the annual spending policy amount for the endowment fund, the University takes into consideration the needs of the University for current income as well as the goal of providing a perpetual source of income to the University that will grow at least at the rate of inflation. For the years ended May 31, 2018 and 2017, the spending policy amount was 4.5% of the market value of the endowment fund. Market value, for the purpose of calculating the spending policy amount, is the three-year moving average of the market value per share of the endowment fund as of December 31 of each year. Funds identified for appropriation will be distributed following the fiscal year end. In addition, the Board may, in response to changing economic circumstances, raise or lower the percentage to be distributed in any given year.

Permanently restricted net assets not participating in the investment pool – Permanently restricted net assets not invested in the investment pool include investments in trusts and beneficial interests in trusts where the University is both the trustee and where the University is not the trustee. Permanently restricted net assets not invested in the investment pool also include donor-restricted contributions receivable.

NOTE 10 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of May 31, were restricted to the following:

	2018	2017
	(In thousands)	
Acquisition of property, plant, and equipment	$ 13,846	$ 15,230
Accumulated appreciation of endowment funds not appropriated for expenditure	123,816	92,700
Passage of time	21,329	16,644
Scholarship and departmental programs	4,000	5,063
Total	$ 162,991	$ 129,637

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

	2018	2017
	(In thousands)	
Restrictions accomplished:		
Renovation of University facilities	$ 3,193	$ 2,930
Scholarship, departmental, and other programs	-	-
Time restrictions expired	3,789	1,708
Endowment appropriation for spending	9,647	8,837
Total	$ 16,629	$ 13,475

NOTE 11 – FINANCIAL AID TO STUDENTS

Financial aid to students reported in the consolidated statements of activities and changes in net assets as a reduction of tuition and fees, was funded in the fiscal years ended May 31, from the following revenue sources:

	2018	2017
	(In thousands)	
University tuition and fees	$ 108,913	$ 93,410
Endowment distribution	6,634	7,474
Donor contributions for current use	3,577	3,001
Government grants	705	768
Total	$ 119,829	$ 104,653

NOTE 12 – RELATED-PARTY TRANSACTIONS

Members of the University's Board of Trustees and senior management may, from time to time, be associated, either directly or through interlocking board memberships, with entities doing business with the University. The University has a conflict of interest policy that requires any such associations be disclosed in writing on an annual basis and updated as appropriate during the year. When such associations exist, measures are taken to mitigate any actual or perceived conflict, including recusal of the board member from any decisions involving the entity doing business with the University.

In 1970, The Jesuit Community of the University of San Francisco (the "Community"), a corporation, became an entity separate from the University. However, certain relationships are of continuing significance. Members of the Community serve on the University faculty and administration under individual contracts. Salaries are paid in total to the Community and were approximately $1,864,000 and $2,121,000 for the years ended May 31, 2018 and 2017, respectively. In the opinion of the University's management, such salaries are comparable to those of other University employees. Additionally, at May 31, 2018 and 2017, the University had accounts receivable balances of $132,000 and $192,000, respectively, included in other receivables, from the Community for miscellaneous charges. Members of the Community occupied housing facilities recorded at historical cost of $10,512,000 at May 31, 2018 and 2017 ($6,721,000 net book value at May 31, 2018, and $6,931,000 net book value at May 31, 2017).

The University holds secured and unsecured notes receivable from employees for housing assistance. These notes bear interest at a range of 0% to 10% and mature at various dates (see Note 3).

The University has investments in nine limited partnership agreements in which a trustee or trustee emeritus is a partner or founder. These transactions were approved by the Board. As of May 31, 2018 and 2017, the University had contributed approximately $12,300,000 and $11,031,000, respectively, to such partnerships, which are included in private capital. As of May 31, 2018 and 2017, the University had committed to make additional capital contributions of approximately $1,050,000 and $2,319,000, respectively.

NOTE 13 – RETIREMENT BENEFITS

Substantially all nontemporary full-time employees of the University are covered under a 401(a) defined contribution retirement plan (the "Plan") administered by the Teachers' Insurance and Annuity Association of America. The Plan requires the University to contribute to the Plan 10% of employees' base salary below the Social Security wage base and 12% on the base salary amount above the Social Security wage base, up to a maximum salary of $265,000 for tax years 2018 and 2017, respectively. Total retirement expense under the Plan was $15,235,000 and $15,021,000 for the years ended May 31, 2018 and 2017, respectively, which is net of total forfeitures under the Plan of $1,452,000 and $709,000 for the years ended May 31, 2018 and 2017, respectively. There are no employee matching requirements under the Plan. In addition to the Plan, substantially all employees are eligible to participate in a voluntary 403(b) defined contribution plan. There are no University contribution requirements under this plan.

The University also maintains a 457(f) supplemental deferred compensation plan funded by employee pre-tax dollar contributions administered by The Hartford. The plan was established in 1985 and frozen to new participants in 1989. As of May 31, 2018, the University holds $145,000 in investments for the plan and a corresponding liability of $145,000 due to the participants in the plan.

NOTE 14 – COMMITMENTS AND CONTINGENCIES

The University has entered into 69 limited partnership arrangements for investment purposes, whereby the University has committed to make capital contributions to the partnerships of approximately $157,100,000. These commitments include the related-party commitment of $13,350,000 as discussed in Note 12. As of May 31, 2018, the University had contributed approximately $121,600,000 to the partnerships.

The University has various purchase commitments totaling $9,280,000 at May 31, 2018, related primarily to construction contracts.

The University is also contingently liable in connection with claims, matters subject to arbitration, and contracts arising in the normal course of its activities. In addition, the University receives funds from various federal and state government-funded programs, including loan funds, which are subject to audit by cognizant governmental agencies. The University is also subject to audit by other government agencies. Management is of the opinion that the ultimate outcome of such matters will not have a significant effect on the financial position of the University.

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

Years Ending May 31, **(In thousands)**		
2019	$	2,838
2020		2,638
2021		2,107
2022		962
2023		174
Thereafter		591
	$	9,310

Rent expense was $4,548,000 and $4,195,000 for the years ended May 31, 2018 and 2017, respectively.

NOTE 15 – SUBSEQUENT EVENTS

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

The University commenced construction of a new student residential facility in late July, 2018, and entered into a construction contract in the amount of approximately $120,000,000. The contract is a guaranteed maximum price contract and construction is expected to be complete in August, 2020. The residential facility will provide 606 beds for undergraduate students, helping the University meet housing demand. The University is in the process of securing financing through the issuance of tax exempt bonds through CEFA and anticipates the closing of this financing in early November, 2018.

The University's management determined that there are no other material events that occurred subsequent to the consolidated statement of financial position date and through October 8, 2018, the date the consolidated financial statements are issued, which would require adjustments to or disclosures in the consolidated financial statements.