Reports of Independent Auditors and
Financial Statements with
Federal Awards Supplementary Information

University of San Francisco

May 31, 2017 and 2016

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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 financial statements of the University of San Francisco (the "University"), which comprise the statements of financial position as of May 31, 2017 and 2016, and the related statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University of San Francisco as of May 31, 2017 and 2016, 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.

Other Matters

Other Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations ("CFR") Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated September 20, 2017 on our consideration of the University of San Francisco's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University of San Francisco's internal control over financial reporting and compliance.

Moss Adams LLP

San Francisco, California
September 20, 2017

FINANCIAL STATEMENTS

UNIVERSITY OF SAN FRANCISCO
STATEMENTS OF FINANCIAL POSITION
May 31, 2017 and 2016
(In thousands)

	2017	2016
Assets		
Cash and cash equivalents	$ 89,501	$ 82,577
Receivables		
Student accounts, net	3,684	2,445
Contributions, net	30,354	33,735
Student loans, net	9,589	9,684
Other	15,565	7,233
Investments	392,378	366,487
Beneficial interest in trusts	12,123	10,639
Prepaid expenses and other assets	6,934	6,696
Property, plant, and equipment, net	429,877	425,497
Total assets	$ 990,005	$ 944,993
Liabilities		
Accounts payable and accrued liabilities	$ 49,226	$ 47,488
Deferred revenue	30,684	29,085
Liability under split-interest agreements	1,981	2,148
Liability under interest rate swap agreements	14,496	18,238
Bonds payable, net	137,008	140,596
Note payable, net	19,974	21,474
Federal student loan funds refundable	10,818	10,533
Total liabilities	264,187	269,562
Net Assets		
Unrestricted	427,041	407,381
Temporarily restricted	129,637	113,437
Permanently restricted	169,140	154,613
Total net assets	725,818	675,431
Total liabilities and net assets	$ 990,005	$ 944,993

See accompanying notes.

UNIVERSITY OF SAN FRANCISCO
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.

UNIVERSITY OF SAN FRANCISCO
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
Year Ended May 31, 2016
(In thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND OTHER SUPPORT				
Tuition and fees	$ 379,285	$ -	$ -	$ 379,285
Auxiliary revenue - residence and dining fees	29,050	-	-	29,050
Less financial aid to students	(92,637)	-	-	(92,637)
Net student tuition and fees	315,698	-	-	315,698
Grants and contracts	4,514	-	-	4,514
Investment income	1,008	2,377	-	3,385
Contributions	17,362	20,629	7,237	45,228
Net realized and unrealized loss on investments	(2,114)	(9,192)	-	(11,306)
Change in value of split-interest agreements	-	(1,089)	(609)	(1,698)
Change in value of interest rate swap agreements	(1,575)	-	-	(1,575)
Auxiliary revenue - other	7,025	-	-	7,025
Other	5,461	-	-	5,461
Net assets released from restrictions	14,012	(14,012)	-	-
Total revenues and other support	361,391	(1,287)	6,628	366,732
EXPENSES				
Instruction	174,599	-	-	174,599
Research	2,482	-	-	2,482
Public service	2,441	-	-	2,441
Academic support	35,441	-	-	35,441
Student services	50,530	-	-	50,530
Institutional support	58,637	-	-	58,637
Auxiliary enterprises	30,906	-	-	30,906
Total expenses	355,036	-	-	355,036
INCREASE IN NET ASSETS	6,355	(1,287)	6,628	11,696
NET ASSETS, beginning of year	401,026	114,724	147,985	663,735
NET ASSETS, end of year	$ 407,381	$ 113,437	$ 154,613	$ 675,431

See accompanying notes.

(In thousands)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	$ 50,387	$ 11,696
Adjustment to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	22,018	22,570
Accretion of asset retirement obligation liability	(37)	(45)
Amortization of bond issuance costs	580	205
Amortization of lease intangibles	139	200
Provision for bad debt	242	608
Discount on contribution receivable	(165)	392
Forgiveness of employee notes	47	42
Net realized and unrealized (gain) loss on investments	(35,117)	11,306
Change in value of split-interest agreements	(1,952)	1,698
Change in value of interest rate swap agreements	(3,742)	1,575
Loss on disposal of assets	205	511
Contributions restricted for investment in endowment and plant	(17,126)	(21,015)
Distributions of interest in trusts	4,661	186
Gifts of investments	-	(10,321)
Changes in:		
Student accounts receivable	(1,654)	(232)
Contributions receivable	3,701	(11,538)
Other receivables	(8,848)	279
Prepaid expenses and other assets	(330)	(59)
Accounts payable and accrued liabilities	1,744	(2,835)
Liability under split-interest agreements	64	1,070
Deferred revenue	1,599	3,082
Net cash provided by operating activities	16,416	9,375
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property, plant, and equipment	(26,936)	(25,554)
Proceeds from disposal of assets	275	112
Proceeds from sale of investments	139,611	155,355
Purchases of investments	(134,809)	(167,821)
Issuance of student loans	(1,591)	(1,409)
Student loan repayments	1,704	1,748
Issuance of employee notes	(227)	(421)
Employee notes repayments	695	135
Net cash used in investing activities	(21,278)	(37,855)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on bonds payable	(4,125)	(4,465)
Payments on note payable	(1,500)	(1,500)
Contributions restricted for investment in endowment and plant	17,126	21,015
Net change in federal student loan funds refundable	285	(718)
Net cash provided by financing activities	11,786	14,332
NET CHANGE IN CASH AND CASH EQUIVALENTS	6,924	(14,148)
CASH AND CASH EQUIVALENTS, beginning of year	82,577	96,725
CASH AND CASH EQUIVALENTS, end of year	$ 89,501	$ 82,577
SUPPLEMENTAL DISCLOSURE OF CASH-FLOW INFORMATION		
Interest paid	$ 7,916	$ 7,900
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES		
Additions to property, plant, and equipment included in accounts payable and accrued liabilities	$ 1,489	$ 1,479

See accompanying notes.

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

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

Basis of accounting – The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("generally accepted accounting principles"), which include the principles of not-for-profit accounting as defined by 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.
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> *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.
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> *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.

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 $5,006,000 and $3,815,000 as of May 31, 2017 and 2016, respectively. Student accounts receivable allowance for bad debt is estimated as $1,322,000 and $1,370,000 as of May 31, 2017 and 2016, 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 $11,269,000 and $2,310,481 as of May 31, 2017 and 2016, 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. University 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 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 2.98% and 3.33% at May 31, 2017 and 2016, respectively.

As of May 31, 2017 and 2016, investments in marketable securities include $4,397,000 and $4,801,000, 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 $1,981,000 and $2,148,000 are included in liability under split-interest agreements as of May 31, 2017 and 2016, 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 4.11% and 4.16% at May 31, 2017 and 2016, respectively. The University holds a beneficial interest in trusts where the University is not the trustee, amounting to $12,123,000 and $10,639,000 as of May 31, 2017 and 2016, 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 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 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, 2017 and as of May 31, 2016, and a 125% aggregate excess. As of May 31, 2017 and 2016, an estimated liability for payment of incurred and unpaid claims of $1,016,000 and $977,000, respectively, is included in accrued liabilities in the accompanying 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, 2017 and 2016, an estimate of uninsured losses of $784,000 and $797,000, respectively, is included in accrued liabilities in the accompanying 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, 2017 and 2016, the University contributed to the union trust and charged to expense $652,000 and $621,000, 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, 2017, 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 2017 and 2016 is for the plan years ended December 31, 2016 and 2015 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 2017 and 2016 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**	**2016**	**2015**	**2016**	**2015**	
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 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 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 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 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 note 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 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 1.75% and 1.37% as of May 31, 2017 and 2016, 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 market 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 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 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 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 financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Tax-exempt status – The University 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 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 financial statements.

New accounting pronouncements – In May 2014, the FASB issued 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 financial statements.

In August 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-15, *Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern* ("ASU 2014-15"). ASU 2014-15 is intended to define management's responsibility to evaluate whether there is substantial doubt about an organization's ability to continue as a going concern and to provide related footnote disclosures. The adoption of ASU 2014-15 in the current year did not have a material impact on the University's 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 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, 2021. Management is currently evaluating the impact of the provisions of ASU 2016-02 on the 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 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 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, 2019. Management is currently evaluating the impact of the provisions of ASU 2016-18 on the financial statements.

NOTE 2 – CONTRIBUTIONS RECEIVABLE

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

	2017	2016
	(In thousands)	
Less than one year	$ 7,090	$ 8,328
One to five years	21,287	23,179
More than five years	4,777	5,348
Total	33,154	36,855
Less allowance for uncollectible contributions	(1,228)	(1,726)
Less unamortized discount	(1,572)	(1,394)
	(2,800)	(3,120)
Contributions receivable, net	$ 30,354	$ 33,735

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:

	2017	2016
	(In thousands)	
Federal government programs	$ 10,061	$ 10,154
Institutional programs	97	118
Student loans receivable	10,158	10,272
Less allowance for doubtful accounts:		
Beginning of year	(588)	(650)
Decreases	15	16
Write-offs	4	46
End of year	(569)	(588)
Student loans receivable, net	$ 9,589	$ 9,684

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 $1,545,000 and $2,061,000 were outstanding at May 31, 2017 and 2016, respectively, and are collateralized by deeds of trust on properties concentrated in the region surrounding the University. No allowance for doubtful accounts has been recorded against these loans based on their collateralization and prior collection history. These amounts are included in other receivables in the accompanying statements of financial position.

NOTE 4 – INVESTMENTS

Investments as of May 31, consisted of the following:

	2017	2016
	(In thousands)	
Equity securities	$ 96,294	$ 75,175
Equity funds	22,893	18,715
Fixed-income investments	66,452	66,516
Short-term investments	278	192
Real estate	31,717	34,145
Alternative investments:		
Equity funds	42,467	37,915
Private capital	48,217	44,441
Real asset funds	12,899	11,514
Hedge funds	71,161	77,874
	$ 392,378	$ 366,487

Net realized and unrealized gain (loss) on investments as of May 31, 2017 and 2016, include management fees of approximately $2,911,000 and $2,653,000, 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 financial statements.

NOTE 5 – FAIR VALUE MEASUREMENTS

The financial assets and liabilities carried on the accompanying statements of financial position by level within the valuation hierarchy as of May 31, 2017 and 2016, were as follows:

Fair Value Measurements 2017

	Measured at NAV	Level 1	Level 2 (In thousands)	Level 3	Total
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	$ 108,965	$ 40,597	$ 43,840	$ 404,501
Liabilities					
Interest rate swap agreements	$ -	$ -	$ 14,496	$ -	$ 14,496
Total fair value of liabilities presented	$ -	$ -	$ 14,496	$ -	$ 14,496

Fair Value Measurements 2016

	Measured at NAV	Level 1	Level 2 (In thousands)	Level 3	Total
Assets					
Cash equivalents - Variable rate demand notes	$ -	$ 24,194	$ 15,020	$ -	$ 39,214
Investments					
Equity securities	629	74,546	-	-	75,175
Equity funds	18,715	-	-	-	18,715
Fixed-income investments	12,502	13,407	40,607	-	66,516
Short-term investments	-	192	-	-	192
Real estate	-	-	-	34,145	34,145
Alternative investments:					
Equity funds	37,915	-	-	-	37,915
Private capital	44,441	-	-	-	44,441
Real asset funds	11,514	-	-	-	11,514
Hedge funds	77,874	-	-	-	77,874
Total investments	203,590	88,145	40,607	34,145	366,487
Beneficial interest in trusts	-	-	-	10,639	10,639
Total fair value of assets presented	$ 203,590	$ 112,339	$ 55,627	$ 44,784	$ 416,340
Liabilities					
Interest rate swap agreements	$ -	$ -	$ 18,238	$ -	$ 18,238
Total fair value of liabilities presented	$ -	$ -	$ 18,238	$ -	$ 18,238

The quantitative information about significant unobservable inputs related to Level 3 direct investments in real estate fair value measurements used at May 31, 2017, was as follows:

	Fair Value (In thousands)		Valuation Techniques	Unobservable Inputs	Range (Weighted Average)
Residential real estate	$	27,402	Sales comparable	Price per square foot	$266.91-$1,036.32 ($805)
Commercial real estate (building & land)		4,014	Income approach	Price per square foot	$272.36 ($272.36)
Commercial real estate (fractional ownership, building & land)		300	Income approach	Price per square foot	$600.37 (USF share $112.53)
Commercial real estate (fractional ownership, building & land)		1	Sales comparable	Price per square foot	$911.22 (USF share $125.29)
	$	31,717			

The changes in investments classified as Level 3 were as follows for the years ended May 31, 2017 and 2016:

	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

	2016 Real Estate (In thousands)	
Balance, May 31, 2015	$	25,104
Total unrealized gain		63
Purchases/ Additions		8,978
Sales		-
Transfers in and/or out of Level 3		-
Balance, May 31, 2016	$	34,145
Unrealized gain included in the changes in net assets relating to Level 3 investments still held at May 31, 2016	$	63

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

The University evaluates its financial assets and liabilities carried on the 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 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, 2017. The University has commitments under some of the associated investment agreements to make additional capital contributions as noted:

	2017			
	Fair Value (In thousands)	**Unfunded Commitments**	**Redemption Frequency (if currently eligible)**	**Redemption Notice Period**
Investments measured at NAV				
Equity securities	$ 691	-	Not eligible	-
Commingled funds:				
Equity funds	22,893	-	Daily	none
Fixed-income investment	12,771	-	Daily	none
Alternative investments:				
Equity funds	42,467	-	Daily, monthly, quarterly, over 3 years	1-60 days
Private capital	48,217	44,273	Not eligible	-
Real asset funds	12,899	4,795	Not eligible	-
Hedge funds	71,161	-	Monthly, quarterly, annually, over 3 years	5-120 days
	$ 211,099	$ 49,068		

The University holds certain investments in private capital and real assets limited partnerships in the amounts of $48,217,000 and $12,899,000, 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, 2017, these partnerships had estimated termination dates that ranged from 2017 to 2029. Within alternative investment equity and hedge funds the University holds $20,386,000 in funds with an annual redemption date and up to 60-day redemption notice period. There are $12,146,000 in funds with a three-year redemption date and up to 120-day redemption notice period and $10,975,000 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 $3,686,000 in funds which were in liquidation at 5/31/17 and the University received $3,031,000 of their redemption proceeds in July, 2017. The University also holds alternative investments in trust and annuity investments and private equity stock shares in the amount of $691,000 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 5% in private equity. Approximately 45% of the funds are redeemable on a daily basis with up to 28 days' notice. Another approximately 38% are redeemable monthly or quarterly with 6-45 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 47% 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 15% of the private capital category. Buyout funds, which represent approximately 28% of the category, invest in small-, mid-, 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:

	2017	2016
	(In thousands)	
Buildings and improvements	$ 464,366	$ 460,327
Construction in progress	17,985	3,269
Furniture and equipment	46,526	59,453
Land and land improvements	41,934	41,796
Library books and collections	80,397	78,882
Property, plant, and equipment - total	651,208	643,727
Less accumulated depreciation	(221,331)	(218,230)
Property, plant, and equipment - net	$ 429,877	$ 425,497

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 defease prior bond issues. Bonds payable as of May 31, consisted of the following:

	2017	2016
	(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	$ 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	64,770	67,270
CEFA Series 2005B; variable interest rate, principal due annually beginning October 1, 2007, and applicable interest due monthly in varying amounts through 2035; secured by a letter of credit issued by JPMorgan Chase	-	25,400
CEFA Series 2003; variable interest rate, principal due annually beginning May 31, 2004, and applicable interest due monthly in varying amounts through 2033; secured by a letter of credit issued by JPMorgan Chase	-	32,750
CEFA Series 2000; variable interest rate, first principal payment due on June 1, 2004, then due annually beginning May 1, 2005 through 2030, and applicable interest due monthly in varying amounts through 2030; secured by a letter of credit issued by JPMorgan Chase	-	16,800
	138,095	142,220
Net unamortized premium on bonds payable and cost of issuance	(1,087)	(1,624)
	$ 137,008	$ 140,596

Aggregate annual maturities of bonds payable are as follows:

Years Ending May 31, (In thousands)	
2018	$ 4,835
2019	4,950
2020	5,065
2021	5,295
2022	17,810
Thereafter	100,140
	$ 138,095

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 Series 2017, which eliminated the letters of credit.

In conjunction with the issuance of the 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.

The fair values of the CEFA bonds at May 31, 2017 and 2016, were approximately $148,099,000 and $152,731,000, 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 3.87% and 3.77% as of May 31 2017 and 2016, respectively.

NOTE 8 – NOTE 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.

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

	2017	2016
	(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	$ 20,000	$ 21,500
Net unamortized cost of issuance	(26)	(26)
	$ 19,974	$ 21,474

Aggregate annual maturities of the note payable is as follows:

Years Ending May 31, (In thousands)	
2018	$ 1,500
2019	1,500
2020	1,500
2021	1,500
2022	1,500
Thereafter	12,500
	$ 20,000

The effective interest rate on the University's note payable was 3.27% and 3.22% as of May 31, 2017 and 2016, respectively.

The fair value of the note payable at May 31, 2017 and 2016, was approximately $21,552,000 and $23,461,000, respectively. The note 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 table presents the University's endowment pool composition as of May 31, 2017 and 2016, by type of fund:

	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

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	(In thousands)			
Donor-restricted endowment fund	$ -	$ 75,519	$ 143,063	$ 218,582
Board-designated endowment fund	78,966	-	-	78,966
Total endowment funds	$ 78,966	$ 75,519	$ 143,063	$ 297,548

The changes in the University's endowments for the years ended May 31, 2017 and 2016, were as follows:

	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

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	(In thousands)			
Endowment net assets - May 31, 2015	$ 81,994	$ 92,420	$ 137,200	$ 311,614
Investment income	533	1,266	-	1,799
Realized and unrealized loss on investments - net of fees	(3,201)	(7,841)	-	(11,042)
Additions to investment pool	334	67	5,863	6,264
Appropriation of endowment assets for expenditure	(2,795)	(8,292)	-	(11,087)
Transfer for underwater endowments	2,101	(2,101)	-	-
Endowment net assets - May 31, 2016	$ 78,966	$ 75,519	$ 143,063	$ 297,548

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

	2017	2016
	(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	$ 9,786	$ 11,550
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	159,354	143,063
	$ 169,140	$ 154,613
Temporarily Restricted Net Assets		
Total accumulated appreciation of permanently restricted funds not appropriated for expenditure	$ 92,700	$ 75,519

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. Deficits of this nature reported in unrestricted net assets totaled $0 and $348,000 as of May 31, 2017 and 2016, respectively. 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, 2017 and 2016, 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:

	2017	2016
	(In thousands)	
Acquisition of property, plant, and equipment	$ 15,230	$ 17,567
Accumulated appreciation of endowment funds not appropriated for expenditure	92,700	75,519
Passage of time	16,644	14,874
Scholarship and departmental programs	5,063	5,477
Total	$ 129,637	$ 113,437

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

	2017	2016
	(In thousands)	
Restrictions accomplished:		
Renovation of University facilities	$ 2,930	$ 2,747
Scholarship, departmental, and other programs	-	110
Time restrictions expired	1,708	2,863
Endowment appropriation for spending	8,837	8,292
Total	$ 13,475	$ 14,012

NOTE 11 – FINANCIAL AID TO STUDENTS

Financial aid to students reported in the 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:

	2017	2016
	(In thousands)	
University tuition and fees	$ 93,410	$ 82,768
Endowment distribution	7,474	7,019
Donor contributions for current use	3,001	2,243
Government grants	768	607
Total	$ 104,653	$ 92,637

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 $2,121,000 and $2,060,000 for the years ended May 31, 2017 and 2016, respectively. In the opinion of the University's management, such salaries are comparable to those of other University employees. Additionally, at May 31, 2017 and 2016, the University had accounts receivable balances of $192,000 and $164,000, 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, 2017 and 2016 ($6,931,000 net book value at May 31, 2017, and $7,142,000 net book value at May 31, 2016).

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. These transactions were approved by the Board. As of May 31, 2017 and 2016, the University had contributed approximately $11,031,000 and $10,175,000, respectively, to such partnerships, which are included in private capital. As of May 31, 2017 and 2016, the University had committed to make additional capital contributions of approximately $2,319,000 and $3,175,000, 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 – College Retirement Equities Fund. 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 2017 and 2016, respectively. Total retirement expense under the Plan was $15,021,000 and $14,307,000 for the years ended May 31, 2017 and 2016, respectively, which is net of total forfeitures under the Plan of $709,000 and $563,000 for the years ended May 31, 2017 and 2016, 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, 2017, the University holds $186,000 in investments for the plan and a corresponding liability of $186,000 due to the participants in the plan.

NOTE 14 – COMMITMENTS AND CONTINGENCIES

The University has entered into 72 limited partnership arrangements for investment purposes, whereby the University has committed to make capital contributions to the partnerships of approximately $163,603,000. These commitments include the related-party commitment of $13,350,000 as discussed in Note 12. As of May 31, 2017 and 2016, the University had contributed approximately $122,686,000 and $111,506,000, respectively, to the partnerships.

The University has various purchase commitments totaling $4,052,000 at May 31, 2017, 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)		
2018	$	2,735
2019		2,430
2020		2,257
2021		1,722
2022		564
Thereafter		-
	$	9,708

Rent expense was $4,195,000 and $3,962,000 for the years ended May 31, 2017 and 2016, respectively.

NOTE 15 – SUBSEQUENT EVENTS

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

The University's management determined that there are no material events that occurred subsequent to the statement of financial position date and through September 20, 2017, the date the financial statements are issued, which would require adjustments to or disclosures in the financial statements.

SUPPLEMENTARY INFORMATION

(In thousands)

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number or Other Identifying Number	Pass-Through Entity Identifying Number	Pass-Through to Subrecipients	Federal Expenditures
Student Financial Assistance Cluster - Department of Education and				
Department of Health and Human Services:				
Federal Supplemental Educational Opportunity Grants	84.007			$ 627
Federal Work-Study Program	84.033			967
Federal Pell Grant Program	84.063			7,408
Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	84.379			294
Total Student Financial Assistance Awards				9,296
Federal Perkins Loan Program	84.038			8,954
Federal Direct Student Loans	84.268			115,871
Nurse Faculty Loan Program	93.264			1,275
Nursing Student Loans	93.364			1,673
Total Student Financial Assistance Loan Programs				127,773
Total Student Financial Assistance Cluster				137,069
TRIO Cluster - Department of Education:				
Office of Assistant Secretary for Postsecondary Education:				
TRIO - Upward Bound	84.047			590
TRIO - Talent Search	84.044			163
Total TRIO Cluster				753
Research and Development Cluster:				
National Science Foundation:				
Mathematical and Physical Sciences	47.049			65
Geosciences	47.050			107
Computer and Information Science and Engineering	47.070		$ 26	27
Department of Health and Human Services - National Institutes of Health:				
Allergy, Immunology, and Transplantation Research	93.855			142
Department of the Interior U.S. Geological Survey:				
Pass-through Program from U.S. Geological Survey				
U.S. Geological Survey-Research and Data Collection	15.808	G15AC00066		15
National Endowment for the Humanities:				
Promotion of the Humanities-Office of Digital Humanities	45.169			32
Total Research and Development Cluster			26	388

See accompanying notes to schedule of expenditures of federal awards.

(In thousands)

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number or Other Identifying Number	Pass-Through Entity Identifying Number	Pass-Through to Subrecipients	Federal Expenditures
National Endowment for the Humanities:				
Promotion of the Humanities Professional Development	45.163			2
Total National Endowment for the Humanities				2
Department of Health and Human Services - National Institutes of Health:				
Pass-through Program from the Regents of the Univeristy of California San Francisco - Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	8299sc		15
Total Department of Health and Human Services				15
Department of Education:				
Office of Innovation and Improvement:				
Transition to Teaching	84.350		120	202
Total Department of Education			120	202
Department of Commerce - National Institute of Standards and Technology:				
Science, Technology, Business and/or Education Outreach	11.620			10
Total Department of Commerce				10
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 146	$ 138,439

See accompanying notes to schedule of expenditures of federal awards.

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of the University of San Francisco (the "University") under programs of the federal government for the year ended May 31, 2017. The information in this Schedule is presented in accordance with the cost principles contained in the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of the University, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the University.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The University of San Francisco has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE 3 – LOAN PROGRAMS ADMINISTERED BY THE UNIVERSITY

The federal student loan programs listed subsequently are administered directly by the University, and balances and transactions relating to these programs are included in the University's financial statements. Loans outstanding at the beginning of the year and loans made during the year are included in the federal expenditures presented in the Schedule. The balance of loans outstanding at May 31, 2017 consists of:

CFDA Number	Program Name	Outstanding Balance at May 31, 2017
84.038	Federal Perkins Loan Program	$7,509,494
93.264	Nurse Faculty Loan Program	$1,085,692
93.364	Nursing Student Loans	$1,465,658

Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Trustees
University of San Francisco

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the University of San Francisco (the "University"), which comprise the statement of financial position as of May 31, 2017, and the related statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated September 20, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the University's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Moss Adams LLP

San Francisco, California
September 20, 2017

Report of Independent Auditors on Compliance for the Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

To the Board of Trustees
University of San Francisco

Report on Compliance for the Major Federal Program

We have audited the University of San Francisco's (the "University") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the University's major federal program for the year ended May 31, 2017. The University's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its federal award applicable to its federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the University's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the University's compliance.

Opinion on the Major Federal Program

In our opinion, the University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the major federal program for the year ended May 31, 2017.

Report on Internal Control over Compliance

Management of the University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the University's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Moss Adams LLP

San Francisco, California
September 20, 2017

Section I – Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:	*Unmodified*	
Internal control over financial reporting:		
• Material weakness(es) identified?	☐ Yes	☒ No
• Significant deficiency(ies) identified?	☐ Yes	☒ None reported
Noncompliance material to financial statements noted?	☐ Yes	☒ No

Federal Awards

Internal control over major federal programs:		
• Material weakness(es) identified?	☐ Yes	☒ No
• Significant deficiency(ies) identified?	☐ Yes	☒ None reported
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	☐ Yes	☒ No

Identification of major federal programs and type of auditor's report issued on compliance for major federal programs:

CFDA Numbers	*Name of Federal Program or Cluster*	*Type of Auditor's Report Issued on Compliance for Major Federal Programs*
Various	Student Financial Assistance Cluster	*Unmodified*

Dollar threshold used to distinguish between type A and type B programs:	$750,000	
Auditee qualified as low-risk auditee?	☒ Yes	☐ No

Section II – Financial Statement Findings

None reported

Section III – Federal Award Findings and Questioned Costs

None reported

UNIVERSITY OF SAN FRANCISCO
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Office of Accounting and Business Services
2130 Fulton Street
San Francisco, CA 94117-1080
Tel 415.422.6521
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Summary Schedule of Prior Audit Findings

Name of Auditee: University of San Francisco
Period Covered by the Audit: June 1, 2015 to May 31, 2016
Name of Audit Firm: Moss Adams LLP

There were no open findings from the prior audit report.

Report of Independent Auditors and
Financial Statements with
Federal Awards Supplementary Information

University of San Francisco

May 31, 2016 and 2015

MOSS-ADAMS LLP

Certified Public Accountants | Business Consultants

CONTENTS

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Certified Public Accountants | Business Consultants

REPORT OF INDEPENDENT AUDITORS

To the Board of Trustees
University of San Francisco

Report on the Financial Statements

We have audited the accompanying financial statements of the University of San Francisco (the "University"), which comprise the statements of financial position as of May 31, 2016 and 2015, and the related statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial positions of the University of San Francisco as of May 31, 2016 and 2015, 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.

Other Matters

Other Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations (CFR)* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated September 30, 2016, on our consideration of the University of San Francisco's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University of San Francisco's internal control over financial reporting and compliance.

Moss Adams LLP

San Francisco, California
September 30, 2016

FINANCIAL STATEMENTS

UNIVERSITY OF SAN FRANCISCO
STATEMENTS OF FINANCIAL POSITION
May 31, 2016 and 2015
(In thousands)

	2016	2015
Assets		
Cash and cash equivalents	$ 82,577	$ 96,725
Receivables		
Student accounts, net	2,445	2,475
Contributions, net	33,735	22,959
Student loans, net	9,684	9,998
Other	7,233	7,268
Investments	366,487	355,252
Beneficial interest in trusts	10,639	12,362
Prepaid expenses and other assets	6,696	6,613
Property, plant, and equipment	425,497	422,360
Total assets	$ 944,993	$ 936,012
Liabilities		
Accounts payable and accrued liabilities	$ 47,488	$ 49,257
Deferred revenue	29,085	26,003
Liability under split-interest agreements	2,148	1,163
Liability under interest rate swap agreements	18,238	16,663
Bonds payable	140,596	144,976
Note payable	21,474	22,964
Federal student loan funds refundable	10,533	11,251
Total liabilities	269,562	272,277
Net Assets		
Unrestricted	407,381	401,026
Temporarily restricted	113,437	114,724
Permanently restricted	154,613	147,985
Total net assets	675,431	663,735
Total liabilities and net assets	$ 944,993	$ 936,012

See accompanying notes.

(In thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND OTHER SUPPORT				
Tuition and fees	$ 379,285	$ -	$ -	$ 379,285
Auxiliary revenue - residence and dining fees	29,050	-	-	29,050
Less financial aid to students	(92,637)	-	-	(92,637)
Net student tuition and fees	315,698	-	-	315,698
Grants and contracts	4,514	-	-	4,514
Investment income	1,008	2,377	-	3,385
Contributions	17,362	20,629	7,237	45,228
Net realized and unrealized loss on investments	(2,114)	(9,192)	-	(11,306)
Change in value of split-interest agreements	-	(1,089)	(609)	(1,698)
Change in value of interest rate swap agreements	(1,575)	-	-	(1,575)
Auxiliary revenue - other	7,025	-	-	7,025
Other	5,461	-	-	5,461
Net assets released from restrictions	14,012	(14,012)	-	-
Total revenues and other support	361,391	(1,287)	6,628	366,732
EXPENSES				
Instruction	174,599	-	-	174,599
Research	2,482	-	-	2,482
Public service	2,441	-	-	2,441
Academic support	35,441	-	-	35,441
Student services	50,530	-	-	50,530
Institutional support	58,637	-	-	58,637
Auxiliary enterprises	30,906	-	-	30,906
Total expenses	355,036	-	-	355,036
INCREASE IN NET ASSETS	6,355	(1,287)	6,628	11,696
NET ASSETS, beginning of year	401,026	114,724	147,985	663,735
NET ASSETS, end of year	$ 407,381	$ 113,437	$ 154,613	$ 675,431

See accompanying notes.

UNIVERSITY OF SAN FRANCISCO
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
Year Ended May 31, 2015
(In thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND OTHER SUPPORT				
Tuition and fees	$ 367,835	$ -	$ -	$ 367,835
Auxiliary revenue - residence and dining fees	30,124	-	-	30,124
Less financial aid to students	(85,690)	-	-	(85,690)
Net student tuition and fees	312,269	-	-	312,269
Grants and contracts	3,787	-	-	3,787
Investment income	1,097	2,430	-	3,527
Contributions	4,519	11,796	9,853	26,168
Net realized and unrealized gain (loss) on investments	9,775	15,730	(338)	25,167
Change in value of split-interest agreements	-	37	775	812
Change in value of interest rate swap agreements	(2,577)	-	-	(2,577)
Auxiliary revenue - other	6,966	-	-	6,966
Other	5,076	-	-	5,076
Net assets released from restrictions	16,334	(16,334)	-	-
Total revenues and other support	357,246	13,659	10,290	381,195
EXPENSES				
Instruction	166,654	-	-	166,654
Research	2,717	-	-	2,717
Public service	1,661	-	-	1,661
Academic support	37,241	-	-	37,241
Student services	43,673	-	-	43,673
Institutional support	58,822	-	-	58,822
Auxiliary enterprises	31,824	-	-	31,824
Total expenses	342,592	-	-	342,592
INCREASE IN NET ASSETS	14,654	13,659	10,290	38,603
NET ASSETS, beginning of year	386,372	101,065	137,695	625,132
NET ASSETS, end of year	$ 401,026	$ 114,724	$ 147,985	$ 663,735

See accompanying notes.

UNIVERSITY OF SAN FRANCISCO
STATEMENTS OF CASH FLOWS
Years Ended May 31, 2016 and 2015
(In thousands)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	$ 11,696	$ 38,603
Adjustment to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	22,570	21,520
Accretion of asset retirement obligation liability	(45)	(133)
Amortization of bond issuance costs	205	93
Amortization of lease intangibles	200	325
Provision for bad debt	608	714
Discount on contribution receivable	392	546
Forgiveness of employee notes	42	109
Net realized and unrealized loss (gain) on investments	11,306	(25,167)
Change in value of split-interest agreements	1,698	(812)
Change in value of interest rate swap agreements	1,575	2,577
Loss on disposal of assets	511	2,625
Contributions restricted for investment in endowment and plant	(21,015)	(9,510)
Distributions of interest in trusts	186	2,770
Gifts of investments	(10,321)	(4,870)
Changes in:		
Student accounts receivable	(232)	158
Contributions receivable	(11,538)	(7,472)
Other receivables	279	6,522
Prepaid expenses and other assets	(59)	(637)
Accounts payable and accrued liabilities	(2,835)	5,467
Liability under split-interest agreements	1,070	(683)
Deferred revenue	3,082	(2,606)
Net cash provided by operating activities	9,375	30,139
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property, plant, and equipment	(25,554)	(18,644)
Proceeds from disposal of assets	112	14
Proceeds from sale of investments	155,355	46,728
Purchases of investments	(167,821)	(97,119)
Issuance of student loans	(1,409)	(1,401)
Student loan repayments	1,748	1,779
Issuance of employee notes	(421)	(423)
Employee notes repayments	135	87
Net cash used in investing activities	(37,855)	(68,979)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on bonds payable	(4,465)	(4,255)
Payments on note payable	(1,500)	(1,500)
Contributions restricted for investment in endowment and plant	21,015	9,510
Net change in federal student loan funds refundable	(718)	280
Net cash provided by financing activities	14,332	4,035
NET CHANGE IN CASH AND CASH EQUIVALENTS	(14,148)	(34,805)
CASH AND CASH EQUIVALENTS, beginning of year	96,725	131,530
CASH AND CASH EQUIVALENTS, end of year	$ 82,577	$ 96,725
SUPPLEMENTAL DISCLOSURE OF CASH-FLOW INFORMATION		
Interest paid	$ 7,900	$ 8,156
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES		
Additions to property, plant, and equipment included in accounts payable and accrued liabilities	$ 1,479	$ 474

See accompanying notes.

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

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

Basis of accounting – The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("generally accepted accounting principles"), which include the principles of not-for-profit accounting as defined by the Financial Accounting Standards Board ("FASB"). The accounting principles require that unconditional promises to give be recorded as receivables and 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.

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.

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 $3,815,000 and $4,135,000 as of May 31, 2016 and 2015, respectively. Student accounts receivable allowance for bad debt is estimated as $1,370,000 and $1,660,000 as of May 31, 2016 and 2015, 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.

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. 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. University 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 financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company.

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.

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.

Effective in fiscal year 2016, the University retroactively adopted the provisions of FASB Accounting Standards Update No. 2015-07 (ASU 2015-07), *Fair Value Measurement: Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or its Equivalent)*. ASU 2015-07 removes the requirement to classify within the fair value hierarchy investments measured at NAV. As a result of the adoption, the May 31, 2015, fair value hierarchy was restated to reflect the removal of NAV-measured investments of $192,100,000. The opening balances in the Level 3 roll forward tables were restated to reflect the removal of NAV-measured investments aggregating $125,169,000 as of May 31, 2015, and $110,836,000 as of May 31, 2014. See further discussion below.

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 3.33% and 3.43% at May 31, 2016 and 2015, 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 4.16% and 4.34% at May 31, 2016 and 2015, respectively.

As of May 31, 2016 and 2015, investments in marketable securities include $4,801,000 and $3,224,000, 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 $2,148,000 and $1,163,000 are included in liability under split-interest agreements as of May 31, 2016 and 2015, respectively. The University holds a beneficial interest in trusts where the University is not the trustee, amounting to $10,639,000 and $12,362,000 as of May 31, 2016 and 2015, respectively.

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 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 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 December 31, 2016, and $125,000 per individual as of May 31, 2015, and a 125% aggregate excess. As of May 31, 2016 and 2015, an estimated liability for payment of incurred and unpaid claims of $977,000 and $1,068,000, respectively, is included in accrued liabilities in the accompanying 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, 2016 and 2015, an estimate of uninsured losses of $797,000 and $773,000, respectively, is included in accrued liabilities in the accompanying 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, 2016, 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, 2016 and 2015, the University contributed to the union trust and charged to expense $621,000 and $585,000, 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, 2016, 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 2016 and 2015 is for the plan years ended December 31, 2015 and 2014, 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 2016 and 2015 contributions.

Pension Fund	EIN-PN	Pension Protection Act Zone Status 2015	Pension Protection Act Zone Status 2014	Are the University's Contributions More Than 5% of Total Plan Contributions? 2015	Are the University's Contributions More Than 5% of Total Plan Contributions? 2014	FIP/RP Status Pending/ Implemented
I. U. O. E. Stationary Engineers Local 39 Pension Plan	94-6118939 - Plan 001	Green	Green	No	No	N/A

Asset retirement obligation – Certain assets of the University contain asbestos. Although the asbestos is properly contained in accordance with current environmental regulations, the University's practice is to remediate asbestos whenever substantial renovations to University assets occur. The University determined that certain assets recorded within property, plant, and equipment meet the criteria for recording a liability under the accounting guidance.

For the years ended May 31, 2016 and 2015, the University incurred accretion expense of $45,000 and $133,000, respectively. During the years ended May 31, 2016 and 2015, the University incurred abatement costs of $174,000 and $108,000, respectively.

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 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 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 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 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 note 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 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 1.37% and 1.49% as of May 31, 2016 and 2015, 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 market 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 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 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 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 financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Tax-exempt status – The University 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 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 financial statements.

Reclassifications – Certain reclassifications have been made to the 2015 financial statements to conform to the 2016 financial statement presentation.

New accounting pronouncements – In May 2015, FASB issued ASU No. 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)* ("ASU No. 2015-07"), a consensus of the Emerging Issues Task Force. Pursuant to ASU No. 2015-07, investments for which fair value is measured at net asset value, or its equivalent, using the practical expedient will no longer be categorized in the fair value hierarchy. Removing such investments from the fair value hierarchy thereby ensures that all investments categorized in the fair value hierarchy are classified using a consistent approach. ASU No. 2015-07 also removes the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value practical expedient. Instead, such disclosures are limited to investments for which the entity has elected to estimate the fair value using that practical expedient. Effective in fiscal year 2016, the University retroactively adopted the provisions of ASU 2015-07.

The FASB has issued ASU No. 2015-03, *Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*, as part of its simplification initiative to reduce the cost and complexity in accounting standards. ASU No. 2015-03 amends the FASB requirement that debt issuance costs be presented in the balance sheet as a direct deduction from the carrying amount of the related liability. Such treatment is consistent with the current presentation of debt discounts or premiums. ASU No. 2015-03 is effective in the annual periods beginning after December 15, 2016, with earlier adoption permitted. The University has adopted ASU No. 2015-03, and has reflected the impact on the accompanying statements of financial position.

NOTE 2 – CONTRIBUTIONS RECEIVABLE

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

	2016	2015
	(In thousands)	
Less than one year	$ 8,328	$ 7,939
One to five years	23,179	12,525
More than five years	5,348	4,853
Total	36,855	25,317
Less allowance for uncollectible contributions	(1,726)	(1,356)
Less unamortized discount	(1,394)	(1,002)
	(3,120)	(2,358)
Contributions receivable, net	$ 33,735	$ 22,959

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:

	2016	2015
	(In thousands)	
Federal government programs	$ 10,154	$ 10,411
Institutional programs	118	237
Student loans receivable	10,272	10,648
Less allowance for doubtful accounts:		
Beginning of year	(650)	(774)
Decreases	16	51
Write-offs	46	73
End of year	(588)	(650)
Student loans receivable, net	$ 9,684	$ 9,998

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 $2,061,000 and $1,817,000 were outstanding at May 31, 2016 and 2015, 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 statements of financial position.

NOTE 4 – INVESTMENTS

Investments as of May 31, consisted of the following:

	2016	2015
	(In thousands)	
Equity securities	$ 75,175	$ 80,199
Equity funds	18,715	21,679
Fixed-income investments	66,516	70,289
Short-term investments	192	305
Real estate	34,145	25,104
Alternative investments:		
Equity funds	37,915	28,739
Private capital	44,441	48,380
Real asset funds	11,514	12,620
Hedge funds	77,874	67,937
	$ 366,487	$ 355,252

Net realized and unrealized gain (loss) on investments as of May 31, 2016 and 2015, include management fees of approximately $2,653,000 and $2,337,000, 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 financial statements.

NOTE 5 – FAIR VALUE MEASUREMENTS

The financial assets and liabilities carried on the accompanying statements of financial position by level within the valuation hierarchy as of May 31, 2016 and 2015, were as follows:

	Fair Value Measurements 2016				
	Measured at NAV	Level 1	Level 2	Level 3	Total
			(In thousands)		
Assets					
Cash equivalents - Variable rate demand notes	$ -	$ 24,194	$ 15,020	$ -	$ 39,214
Investments					
Equity securities	629	74,546	-	-	75,175
Equity funds	18,715	-	-	-	18,715
Fixed-income investments	12,502	13,407	40,607	-	66,516
Short-term investments	-	192	-	-	192
Real estate	-	-	-	34,145	34,145
Alternative investments:					
Equity funds	37,915	-	-	-	37,915
Private capital	44,441	-	-	-	44,441
Real asset funds	11,514	-	-	-	11,514
Hedge funds	77,874	-	-	-	77,874
Total investments	203,590	88,145	40,607	34,145	366,487
Beneficial interest in trusts	10,639	-	-	-	10,639
Total fair value of assets presented	$ 214,229	$ 112,339	$ 55,627	$ 34,145	$ 416,340
Liabilities					
Interest rate swap agreements	$ -	$ -	$ 18,238	$ -	$ 18,238
Total fair value of liabilities presented	$ -	$ -	$ 18,238	$ -	$ 18,238

	Fair Value Measurements 2015				
	Measured at NAV	Level 1	Level 2	Level 3	Total
			(In thousands)		
Assets					
Cash equivalents - Variable rate demand notes	$ -	$ 26,347	$ 15,207	$ -	$ 41,554
Investments					
Equity securities	-	80,199	-	-	80,199
Equity funds	21,679	-	-	-	21,679
Fixed-income investments	383	29,425	40,481	-	70,289
Short-term investments	-	305	-	-	305
Real estate	-	-	-	25,104	25,104
Alternative investments:					
Equity funds	28,739	-	-	-	28,739
Private capital	48,380	-	-	-	48,380
Real asset funds	12,620	-	-	-	12,620
Hedge funds	67,937	-	-	-	67,937
Total investments	179,738	109,929	40,481	25,104	355,252
Beneficial interest in trusts	12,362	-	-	-	12,362
Total fair value of assets presented	$ 192,100	$ 136,276	$ 55,688	$ 25,104	$ 409,168
Liabilities					
Interest rate swap agreements	$ -	$ -	$ 16,663	$ -	$ 16,663
Total fair value of liabilities presented	$ -	$ -	$ 16,663	$ -	$ 16,663

The quantitative information about significant unobservable inputs related to Level 3 direct investments in real estate fair value measurements used at May 31, 2016, was as follows:

	Fair Value (In thousands)	Valuation Techniques	Unobservable Inputs	Range (Weighted Average)
Residential real estate	$ 25,981	Sales comparable	Price per square foot	$257.62-$1,174.60 ($806.86)
Commercial real estate (building & land)	6,130	Income approach	Price per square foot	$332.66-$414.22 ($346.00)
Commercial real estate (land only)	1,300	Income approach	Price per square foot	$44.54
Commercial real estate (fractional ownership, building & land)	253	Income approach	Price per square foot	$525.13 (USF share $94.90)
Commercial real estate (fractional ownership, building & land)	481	Sales comparable	Price per square foot	$911.22 (USF share $125.29)
	$ 34,145			

The changes in investments classified as Level 3 were as follows for the years ended May 31, 2016 and 2015:

	2016 Real Estate (In thousands)
Balance, May 31, 2015	$ 25,104
Total unrealized gain	63
Purchases /Additions	8,978
Sales	-
Transfers in and/or out of Level 3	-
Balance, May 31, 2016	$ 34,145
Unrealized gains included in the changes in net assets relating to Level 3 investments still held at May 31, 2016	$ 63

	2015 Real Estate (In thousands)
Balance, May 31, 2014	$ 20,831
Total unrealized gain	4,273
Purchases/ Additions	-
Sales	-
Transfers in and/or out of Level 3	-
Balance, May 31, 2015	$ 25,104
Unrealized gain included in the changes in net assets relating to Level 3 investments still held at May 31, 2015	$ 4,273

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

The University evaluates its financial assets and liabilities carried on the 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 were no transfers from Level 3 to Level 2 for investment funds during the year ended May 31, 2016. 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, 2016. The University has commitments under some of the associated investment agreements to make additional capital contributions as noted:

	2016			
	Fair Value (In thousands)	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Investments measured at NAV				
Equity securities	629	-	Not eligible	-
Commingled funds:				
Equity funds	18,715	-	Daily	none
Fixed-income investment	12,502	-	Daily	none
Alternative investments:				
Equity funds	37,915	-	Daily, monthly, quarterly, over 3 years	1-60 days
Private capital	44,441	29,975	Not eligible	-
Real asset funds	11,514	6,374	Not eligible	-
Hedge funds	77,874	-	Monthly, quarterly, annually, over 3 years	5-120 days
	$ 203,590	$ 36,349		

The University holds certain investments in private capital and real assets limited partnerships in the amounts of $44,441,000 and $11,514,000, 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, 2016, these partnerships had estimated termination dates that ranged from 2016 to 2028. Within alternative investment equity and hedge funds the University holds $12,920,000 in funds with an annual redemption date and up to 60-day redemption notice period. There are $9,411,000 in funds with a three-year redemption date and up to 120-day redemption notice period and $20,075,000 in funds which allow periodic redemption dates over seven-quarters to three-years and up to 65-day notification period per redemption. Within the hedge funds, the University holds $1,000,000 in funds which currently have a three-year lockup period that expires October 1, 2017. The University also holds alternative investments in trust and annuity investments and private equity stock shares in the amount of $629,000 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 5% in private equity. Approximately 42% of the funds are redeemable on a daily basis with up to 28 days' notice. Another approximately 33% are redeemable monthly or quarterly with 6-45 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 5 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 51% 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 15% of the private capital category. Buyout funds, which represent approximately 22% of the category, invest in small-, mid-, 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:

	2016	2015
	(In thousands)	
Buildings and improvements	$ 460,327	$ 453,073
Construction in progress	3,269	3,487
Furniture and equipment	59,453	57,435
Land and land improvements	41,796	31,606
Library books and collections	78,882	76,958
Property, plant, and equipment - total	643,727	622,559
Less accumulated depreciation	(218,230)	(200,199)
Property, plant, and equipment - net	$ 425,497	$ 422,360

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 defease prior bond issues. Bonds payable as of May 31, consisted of the following:

	2016	2015
	(In thousands)	
California Educational Facilities Authority:		
Revenue bonds:		
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	$ 67,270	$ 69,770
CEFA Series 2005B; variable interest rate, principal due annually beginning October 1, 2007, and applicable interest due monthly in varying amounts through 2035; secured by a letter of credit issued by JPMorgan Chase	25,400	25,800
CEFA Series 2003; variable interest rate, principal due annually beginning May 31, 2004, and applicable interest due monthly in varying amounts through 2033; secured by a letter of credit issued by JPMorgan Chase	32,750	33,415
CEFA Series 2000; variable interest rate, first principal payment due on June 1, 2004, then due annually beginning May 1, 2005 through 2030, and applicable interest due monthly in varying amounts through 2030; secured by a letter of credit issued by JPMorgan Chase	16,800	17,700
	142,220	146,685
Net unamortized premium on bonds payable and cost of issuance	(1,624)	(1,709)
	$ 140,596	$ 144,976

Aggregate annual maturities of bonds payable are as follows:

Years Ending May 31, (In thousands)		
2017	$	4,565
2018		4,770
2019		4,880
2020		4,995
2021		5,220
Thereafter		117,790
	$	142,220

In conjunction with the issuance of the 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.

The fair values of the CEFA bonds at May 31, 2016 and 2015, were approximately $152,731,000 and $156,201,000, 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 3.77% and 3.69% as of May 31 2016 and 2015, respectively.

NOTE 8 – NOTE 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.

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

	2016		2015	
	(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	$	21,500	$	23,000
Net unamortized cost of issuance		(26)		(36)
	$	21,474	$	22,964

Aggregate annual maturities of the note payable is as follows:

Years Ending May 31, (In thousands)		
2017	$	1,500
2018		1,500
2019		1,500
2020		1,500
2021		1,500
Thereafter		14,000
	$	21,500

The effective interest rate on the University's note payable was 3.22% as of May 31, 2016 and 2015.

The fair value of the note payable at May 31, 2016 and 2015, was approximately $23,461,000 and $24,367,000, respectively. The note 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 table presents the University's endowment pool composition as of May 31, 2016 and 2015, by type of fund:

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
		(In thousands)		
Donor-restricted endowment fund	$ -	$ 75,519	$ 143,063	$ 218,582
Board-designated endowment fund	78,966	-	-	78,966
Total endowment funds	$ 78,966	$ 75,519	$ 143,063	$ 297,548

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
		(In thousands)		
Donor-restricted endowment fund	$ -	$ 92,420	$ 137,200	$ 229,620
Board-designated endowment fund	81,994	-	-	81,994
Total endowment funds	$ 81,994	$ 92,420	$ 137,200	$ 311,614

The changes in the University's endowments for the years ended May 31, 2016 and 2015, were as follows:

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
		(In thousands)		
Endowment net assets - May 31, 2015	$ 81,994	$ 92,420	$ 137,200	$ 311,614
Investment income	533	1,266	-	1,799
Realized and unrealized loss on investments - net of fees	(3,201)	(7,841)	-	(11,042)
Additions to investment pool	334	67	5,863	6,264
Appropriation of endowment assets for expenditure	(2,795)	(8,292)	-	(11,087)
Transfer for underwater endowments	2,101	(2,101)	-	-
Endowment net assets - May 31, 2016	$ 78,966	$ 75,519	$ 143,063	$ 297,548

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
		(In thousands)		
Endowment net assets - May 31, 2014	$ 58,816	$ 86,564	$ 128,845	$ 274,225
Investment income	577	1,778	-	2,355
Realized and unrealized gain on investments - net of fees	4,629	15,735	-	20,364
Additions to investment pool	16,253	-	8,355	24,608
Appropriation of endowment assets for expenditure	(1,939)	(7,999)	-	(9,938)
Transfer for underwater endowments	3,658	(3,658)	-	-
Endowment net assets - May 31, 2015	$ 81,994	$ 92,420	$ 137,200	$ 311,614

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

		2016		2015
		(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	$	11,550	$	10,785
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		143,063		137,200
	$	154,613	$	147,985
Temporarily Restricted Net Assets				
The portion of perpetual endowment funds subject to a time restriction under UPMIFA not participating in the investment pool	$	-	$	56
The portion of perpetual endowment funds subject to a time restriction under UPMIFA		75,519		92,420
Total accumulated appreciation of permanently restricted funds not appropriated for expenditure	$	75,519	$	92,476

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. Deficits of this nature reported in unrestricted net assets totaled $348,000 and $0 as of May 31, 2016 and 2015, respectively. 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, 2016 and 2015, 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:

	2016	2015
	(In thousands)	
Acquisition of property, plant, and equipment	$ 17,567	$ 4,826
Accumulated appreciation of endowment funds not appropriated for expenditure	75,519	92,477
Passage of time	14,874	17,354
Scholarship and departmental programs	5,477	67
Total	$ 113,437	$ 114,724

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

	2016	2015
	(In thousands)	
Purpose restrictions accomplished:		
Renovation of University facilities	$ 2,747	$ 3,274
Scholarship, departmental, and other programs	110	3,658
Time restrictions expired	2,863	1,403
Endowment appropriation for spending	8,292	7,999
Total	$ 14,012	$ 16,334

NOTE 11 – FINANCIAL AID TO STUDENTS

Financial aid to students reported in the 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:

	2016	2015
	(In thousands)	
University tuition and fees	$ 82,768	$ 74,969
Endowment distribution	7,019	7,280
Donor contributions for current use	2,243	2,759
Government grants	607	682
Total	$ 92,637	$ 85,690

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 $2,060,000 and $1,991,000 for the years ended May 31, 2016 and 2015, respectively. In the opinion of the University's management, such salaries are comparable to those of other University employees. Additionally, at May 31, 2016 and 2015, the University had accounts receivable balances of $164,000 and $163,000, 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, 2016 and 2015 ($7,142,000 net book value at May 31, 2016, and $7,352,000 net book value at May 31, 2015).

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. These transactions were approved by the Board. As of May 31, 2016 and 2015, the University had contributed approximately $10,175,000 and $9,300,000, respectively, to such partnerships, which are included in private capital. As of May 31, 2016 and 2015, the University had committed to make additional capital contributions of approximately $3,175,000 and $2,050,000, 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 – College Retirement Equities Fund. 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 2016 and 2015, respectively. Total retirement expense under the Plan was $14,307,000 and $13,440,000 for the years ended May 31, 2016 and 2015, respectively, which is net of total forfeitures under the Plan of $563,000 and $477,000 for the years ended May 31, 2016 and 2015, 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, 2016, the University holds $186,000 in investments for the plan and a corresponding liability of $186,000 due to the participants in the plan.

NOTE 14 – COMMITMENTS AND CONTINGENCIES

The University has entered into 65 limited partnership arrangements for investment purposes, whereby the University has committed to make capital contributions to the partnerships of approximately $140,103,000. These commitments include the related-party commitment of $13,350,000 as discussed in Note 12. As of May 31, 2016 and 2015, the University had contributed approximately $111,506,000 and $102,349,000, respectively, to the partnerships.

The University has various purchase commitments totaling $1,943,000 at May 31, 2016, 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)		
2017	$	2,620
2018		2,505
2019		2,194
2020		1,898
2021		1,317
Thereafter		462
	$	10,996

Rent expense was $3,962,000 and $3,702,000 for the years ended May 31, 2016 and 2015, respectively.

NOTE 15 – SUBSEQUENT EVENTS

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

The University's management determined that there are no material events that occurred subsequent to the statement of financial position date and through September 30, 2016, the date the financial statements are issued, which would require adjustments to or disclosures in the financial statements.

SUPPLEMENTARY INFORMATION

(In thousands)

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number or Other Identifying Number	Pass-Through Entity Identifying Number	Pass-Through to Subrecipients	Federal Expenditures
Student Financial Aid - Cluster - Department of Education and				
Department of Health and Human Services:				
Federal Supplemental Educational Opportunity Grants	84.007			$ 591
Federal Work-Study Program	84.033			1,148
Federal Pell Grant Program	84.063			7,566
Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	84.379			191
Total Student Financial Aid Awards				9,496
Federal Perkins Loan Program	84.038			7,993
Federal Direct Student Loans	84.268			111,210
Nurse Faculty Loan Program	93.264			1,052
Nursing Student Loans	93.364			1,455
Total Student Financial Aid Loan Programs				121,710
Total Student Financial Aid Cluster				131,206
Research and Development - Cluster:				
National Science Foundation:				
Mathematical and Physical Sciences	47.049			50
Geosciences	47.050			11
Computer and Information Science and Engineering	47.070			18
Education and Human Resources	47.076			16
Polar Programs	47.078			5
Department of Health and Human Services - National Institutes of Health:				
Allergy, Immunology, and Transplantation Research	93.855			87
Department of the Interior U.S. Geological Survey:				
U.S. Geological Survey_Research and Data Collection	15.808			14
National Endowment for the Humanities:				
Promotion of the Humanities_Office of Digital Humanities	45.169			26
Total Research and Development Cluster				227
National Endowment for the Humanities:				
Promotion of the Humanities Professional Development	45.163			17
Total National Endowment for the Humanities				17

See accompanying notes to schedule of expenditures of federal awards.

(In thousands)

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number or Other Identifying Number	Pass-Through Entity Identifying Number	Pass-Through to Subrecipients	Federal Expenditures
Department of Health and Human Services - National Institutes of Health:				
Pass-through Program from the Regents of the University of California, Los Angeles - Medical Library Assistance	93.879	5415 P SA567		8
Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)	93.224			47
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243			14
Total Department of Health and Human Services				69
Department of Education:				
Office of Assistant Secretary for Postsecondary Education:				
TRIO - Upward Bound	84.047			532
Office of Innovation and Improvement:				
Transition to Teaching	84.350		$ 225	428
Total Department of Education			225	960
Agency for International Development:				
Pass-through Program from the University of California Davis - USAID Foreign Assistance for Programs Overseas	98.001	201121454-19	39	39
Total Agency for International Development:			39	39
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 264	$ 132,518

See accompanying notes to schedule of expenditures of federal awards.

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of the University of San Francisco (the "University") under programs of the federal government for the year ended May 31, 2016. The information in this Schedule is presented in accordance with the cost principles contained in OMB Circular A-21, *Cost Principles for Educational Institutions* and the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the University, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the University.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The University of San Francisco has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE 3 – LOAN PROGRAMS ADMINISTERED BY THE UNIVERSITY

The federal student loan programs listed subsequently are administered directly by the University, and balances and transactions relating to these programs are included in the University's basic financial statements. Loans outstanding at the beginning of the year and loans made during the year are included in the federal expenditures presented in the Schedule. The balance of loans outstanding at May 31, 2016 consists of:

CFDA Number	Program Name	Outstanding Balance at May 31, 2016
84.038	Federal Perkins Loan Program	$7,695,985
93.264	Nurse Faculty Loan Program	$1,039,543
93.364	Nursing Student Loans	$1,432,767

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REPORT OF INDEPENDENT AUDITORS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Trustees
University of San Francisco

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the University of San Francisco (the "University"), which comprise the statement of financial position as of May 31, 2016, and the related statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated September 30, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the University's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Moss Adams LLP

San Francisco, California
September 30, 2016

REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Trustees
University of San Francisco

Report on Compliance for the Major Federal Program

We have audited the University of San Francisco's (the "University") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the University's major federal program for the year ended May 31, 2016. The University's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the federal statues, regulations, and the terms and conditions of its federal award applicable to its federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the University's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the University's compliance.

Opinion on the Major Federal Program

In our opinion, the University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the major federal program for the year ended May 31, 2016.

Report on Internal Control over Compliance

Management of the University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the University's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Moss Adams LLP

San Francisco, California
September 30, 2016

Section I - Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: *Unmodified*

Internal control over financial reporting:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(ies) identified? ☐ Yes ☒ None reported

Noncompliance material to financial statements noted? ☐ Yes ☒ No

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(ies) identified? ☐ Yes ☒ None reported

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? ☐ Yes ☒ No

Identification of major federal programs and type of auditor's report issued on compliance for major federal programs:

CFDA Numbers	*Name of Federal Program or Cluster*	*Type of Auditor's Report Issued on Compliance for Major Federal Programs*
Various	Student Financial Aid Cluster	*Unmodified*

Dollar threshold used to distinguish between type A and type B programs: $750,000

Auditee qualified as low-risk auditee? ☒ Yes ☐ No

Section II - Financial Statement Findings

None reported

Section III - Federal Award Findings and Questioned Costs

None reported

Report of Independent Auditors and
Financial Statements with
Federal Awards Supplementary Information

University of San Francisco

May 31, 2015 and 2014

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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 financial statements of the University of San Francisco (the "University"), which comprise the statements of financial position as of May 31, 2015 and 2014, and the related statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University of San Francisco as of May 31, 2015 and 2014, 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.

Other Matters

Other Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of expenditures of federal awards is required by *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations* and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated September 25, 2015, on our consideration of the University of San Francisco's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University of San Francisco's internal control over financial reporting and compliance.

Moss Adams LLP

San Francisco, California
September 25, 2015

FINANCIAL STATEMENTS

UNIVERSITY OF SAN FRANCISCO
STATEMENTS OF FINANCIAL POSITION
May 31, 2015 and 2014
(In thousands)

	2015	2014
Assets		
Cash and cash equivalents	$ 96,725	$ 131,530
Receivables		
Student accounts, net	2,475	2,887
Contributions, net	22,959	16,544
Student loans, net	9,998	10,325
Other	7,268	13,563
Investments	355,252	277,923
Beneficial interest in trusts	12,362	11,248
Prepaid expenses and other assets	8,608	8,227
Property, plant, and equipment	422,360	428,476
Total assets	$ 938,007	$ 900,723
Liabilities		
Accounts payable and accrued liabilities	$ 49,257	$ 44,344
Deferred revenue	26,003	28,609
Liability under split-interest agreements	1,163	1,873
Liability under interest rate swap agreements	16,663	14,086
Bonds payable	146,935	151,208
Note payable	23,000	24,500
Federal student loan funds refundable	11,251	10,971
Total liabilities	274,272	275,591
Net assets		
Unrestricted	401,026	386,372
Temporarily restricted	114,724	101,065
Permanently restricted	147,985	137,695
Total net assets	663,735	625,132
Total liabilities and net assets	$ 938,007	$ 900,723

See accompanying notes.

(In thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND OTHER SUPPORT				
Tuition and fees	$ 367,835	$ -	$ -	$ 367,835
Auxiliary revenue - residence and dining fees	30,124	-	-	30,124
Less financial aid to students	(85,690)	-	-	(85,690)
Net student tuition and fees	312,269	-	-	312,269
Grants and contracts	3,787	-	-	3,787
Investment income	1,097	2,430	-	3,527
Contributions	4,519	11,796	9,853	26,168
Net realized and unrealized gain (loss) on investments	9,775	15,730	(338)	25,167
Change in value of split-interest agreements	-	37	775	812
Change in value of interest rate swap agreements	(2,577)	-	-	(2,577)
Auxiliary revenue	6,966	-	-	6,966
Other	5,076	-	-	5,076
Net assets released from restrictions	16,334	(16,334)	-	-
Total revenues and other support	357,246	13,659	10,290	381,195
EXPENSES				
Instruction	166,654	-	-	166,654
Research	2,717	-	-	2,717
Public service	1,661	-	-	1,661
Academic support	37,241	-	-	37,241
Student services	43,673	-	-	43,673
Institutional support	58,822	-	-	58,822
Auxiliary enterprises	31,824	-	-	31,824
Total expenses	342,592	-	-	342,592
INCREASE IN NET ASSETS	14,654	13,659	10,290	38,603
NET ASSETS, beginning of year	386,372	101,065	137,695	625,132
NET ASSETS, end of year	$ 401,026	$ 114,724	$ 147,985	$ 663,735

See accompanying notes.

UNIVERSITY OF SAN FRANCISCO
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
Year Ended May 31, 2014
(In thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND OTHER SUPPORT				
Tuition and fees	$ 350,686	$ -	$ -	$ 350,686
Auxiliary revenue - residence and dining fees	28,596	-	-	28,596
Less financial aid to students	(76,885)	-	-	(76,885)
Net student tuition and fees	302,397	-	-	302,397
Grants and contracts	3,940	-	-	3,940
Investment income	1,070	2,032	-	3,102
Contributions	7,361	1,898	5,055	14,314
Net realized and unrealized gain (loss) on investments	9,585	22,031	-	31,616
Change in value of split-interest agreements	-	2,852	319	3,171
Change in value of interest rate swap agreements	1,451	-	-	1,451
Auxiliary revenue	7,629	-	-	7,629
Other	3,579	-	-	3,579
Net assets released from restrictions	13,005	(13,005)	-	-
Total revenues and other support	350,017	15,808	5,374	371,199
EXPENSES				
Instruction	153,851	-	-	153,851
Research	2,896	-	-	2,896
Public service	1,765	-	-	1,765
Academic support	31,814	-	-	31,814
Student services	41,341	-	-	41,341
Institutional support	55,751	-	-	55,751
Auxiliary enterprises	35,738	-	-	35,738
Total expenses	323,156	-	-	323,156
INCREASE IN NET ASSETS	26,861	15,808	5,374	48,043
NET ASSETS, beginning of year	359,511	85,257	132,321	577,089
NET ASSETS, end of year	$ 386,372	$ 101,065	$ 137,695	$ 625,132

See accompanying notes.

UNIVERSITY OF SAN FRANCISCO
STATEMENTS OF CASH FLOWS
Years Ended May 31, 2015 and 2014
(In thousands)

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	$ 38,603	$ 48,043
Adjustment to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	21,520	19,734
Accretion of asset retirement obligation liability	(133)	28
Amortization of bond issuance costs	93	93
Amortization of lease intangibles	325	941
Provision for bad debt	714	830
Discount on contribution receivable	546	(115)
Forgiveness of employee notes	109	136
Net realized and unrealized gain on investments	(25,167)	(31,616)
Change in value of split-interest agreements	(812)	(627)
Change in value of interest rate swap agreements	2,577	(1,451)
Loss (gain) on disposal of assets	2,625	467
Contributions restricted for investment in endowment and plant	(9,510)	(5,659)
Distributions of interest in trusts	2,770	6,362
Gifts of investments	(4,870)	(344)
Changes in:		
Student accounts receivable	158	2,784
Contributions receivable	(7,472)	8,600
Other receivables	6,522	(4,145)
Prepaid expenses and other assets	(637)	186
Accounts payable and accrued liabilities	5,467	110
Liability under split-interest agreements	(683)	(49)
Deferred revenue	(2,606)	622
Net cash provided by operating activities	30,139	44,930
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property, plant, and equipment	(18,644)	(23,443)
Proceeds from disposal of assets	14	81
Proceeds from sale of investments	46,728	41,403
Purchases of investments	(97,119)	(37,724)
Issuance of student loans	(1,401)	(750)
Student loan repayments	1,779	997
Issuance of employee notes	(423)	(209)
Employee notes repayments	87	126
Net cash used in investing activities	(68,979)	(19,519)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on bonds payable	(4,255)	(3,886)
Payments on note payable	(1,500)	(1,500)
Contributions restricted for investment in endowment and plant	9,510	5,660
Net change in federal student loan funds refundable	280	75
Net cash provided by financing activities	4,035	349
NET CHANGE IN CASH AND CASH EQUIVALENTS	(34,805)	25,760
CASH AND CASH EQUIVALENTS, beginning of year	131,530	105,770
CASH AND CASH EQUIVALENTS, end of year	$ 96,725	$ 131,530
SUPPLEMENTAL DISCLOSURE OF CASH-FLOW INFORMATION		
Interest paid	$ 8,156	$ 8,386
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES		
Additions to property, plant, and equipment included in accounts payable and accrued liabilities	$ 474	$ 1,075

See accompanying notes.

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

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

Basis of accounting – The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("generally accepted accounting principles"), which include the principles of not-for-profit accounting as defined by the Financial Accounting Standards Board ("FASB"). The accounting principles require that unconditional promises to give be recorded as receivables and 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.

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.

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 $4,135,000 and $4,968,000 as of May 31, 2015 and 2014, respectively. Student accounts receivable allowance for bad debt is estimated as $1,660,000 and $2,081,000 as of May 31, 2015 and 2014, respectively.

Student loans receivable – Student loans receivable are primarily amounts loaned to students under the Federal Perkins Loan Program, Nursing Student Loans, and 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.

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 hierarchal 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 hedge funds, fixed income investments, and a private investment fund, which is a privately held institutional equity fund, the underlying securities of which are publicly traded. 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, interest rates, and net asset value per share.

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. University 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.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The University's 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 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 financial statements consistent with the measurement principles of an investment company or have the attributes of an investment company.

In determining the reasonableness of the methodology, finance and investment staff under the supervision of the Vice President for Business and Finance evaluate 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 fair value of the annuity payments. The present value discount rate used for all trusts and annuities was an average of 3.43% and 3.97% at May 31, 2015 and 2014, 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 4.34% and 4.52% at May 31, 2015 and 2014, respectively.

As of May 31, 2015 and 2014, investments in marketable securities include $3,224,000 and $4,130,000, 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 $1,163,000 and $1,873,000 are included in liability under split-interest agreements as of May 31, 2015 and 2014, respectively. The University holds a beneficial interest in such trusts where the University is not the trustee, which includes $12,362,000 and $11,248,000 as of May 31, 2015 and 2014, respectively.

Prepaid expenses and other assets – Prepaid expenses and other assets include bond issuance costs, which are amortized using the effective interest method. The unamortized bond issuance costs were $1,994,000 and $2,105,000 as of May 31, 2015 and 2014, respectively.

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 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 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 $125,000 per individual and a 125% aggregate excess. As of May 31, 2015 and 2014, an estimated liability for payment of incurred and unpaid claims of $1,068,000 and $833,000, respectively, is included in accrued liabilities.

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, 2015 and 2014, an estimate of uninsured losses of $773,000 and $685,000, respectively, is included in accrued liabilities.

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, 2016, 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, 2015 and 2014, the University contributed to the union trust and charged to expense $585,000 and $535,000, 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, 2015, 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 2015 and 2014 is for the plan years ended December 31, 2014 and 2013, 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 2015 or 2014 contributions.

Pension Fund	EIN-PN	Pension Protection Act Zone Status		Are the University's Contributions More Than 5% of Total Plan Contributions?		FIP/RP Status Pending/ Implemented
		2014	2013	2014	2013	
I. U. O. E. Stationary Engineers Local 39 Pension Plan	94-6118939 - Plan 001	Green	Green	No	No	N/A

Asset retirement obligation – Certain assets of the University contain asbestos. Although the asbestos is properly contained in accordance with current environmental regulations, the University's practice is to remediate asbestos whenever substantial renovations to University assets occur. The University determined that certain assets recorded within property, plant, and equipment meet the criteria for recording a liability under the accounting guidance.

As of May 31, 2015 and 2014, the University incurred accretion expense of $(133,000) and $28,000, respectively. During the years ended May 31, 2015 and 2014, the University incurred abatement costs of $108,000 and $64,000, respectively.

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 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 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 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 financial statements.

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 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 note 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 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 1.49% and 1.54% as of May 31, 2015 and 2014, respectively. 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 market 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 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 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. Revenues are reported in two sections. 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 financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Tax-exempt status – The University 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 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 financial statements. The last four years remain open for state tax examination, and the last three years remain open for federal tax examination.

Reclassifications – Certain reclassifications have been made to the 2014 financial statements to conform to the 2015 financial statement presentation.

New accounting pronouncements – In May 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*("ASU No. 2015-07"), a consensus of the Emerging Issues Task Force. Pursuant to ASU No. 2015-07, investments for which fair value is measured at net asset value, or its equivalent, using the practical expedient will no longer be categorized in the fair value hierarchy. Removing such investments from the fair value hierarchy thereby ensures that all investments categorized in the fair value hierarchy are classified using a consistent approach. ASU No. 2015-07 also removes the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value practical expedient. Instead, such disclosures are limited to investments for which the entity has elected to estimate the fair value using that practical expedient. ASU No. 2015-07 is effective in the annual periods beginning after December 15, 2016, with earlier adoption permitted. ASU No. 2015-07 should be applied retrospectively to all prior periods presented. The University is currently evaluating the impact of the ASU No. 2015-07 on the financial statements.

The FASB has issued ASU No. 2015-03, *Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*, as part of its simplification initiative to reduce the cost and complexity in accounting standards. ASU No. 2015-03 amends the FASB requirement that debt issuance costs be presented in the balance sheet as a direct deduction from the carrying amount of the related liability. Such treatment is consistent with the current presentation of debt discounts or premiums. ASU No. 2015-03 is effective in the annual periods beginning after December 15, 2016, with earlier adoption permitted. The University is currently evaluating the impact of the ASU No. 2015-03 on the financial statements.

NOTE 2 – CONTRIBUTIONS RECEIVABLE

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

	2015	2014
	(In thousands)	
Less than one year	$ 7,939	$ 4,985
One to five years	12,525	8,554
More than five years	4,853	4,305
Total	25,317	17,844
Less allowance for uncollectible contributions	(1,356)	(845)
Less unamortized discount	(1,002)	(455)
	(2,358)	(1,300)
Contributions receivable, net	$ 22,959	$ 16,544

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:

	2015	2014
	(In thousands)	
Federal government programs	$ 10,411	$ 10,768
Institutional programs	237	331
Student loans receivable	10,648	11,099
Less allowance for doubtful accounts:		
Beginning of year	(774)	(1,517)
Increases/(decreases)	51	(10)
Write-offs	73	753
End of year	(650)	(774)
Student loans receivable, net	$ 9,998	$ 10,325

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 $1,817,000 and $1,602,000 were outstanding at May 31, 2015 and 2014, 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 statements of financial position.

NOTE 4 – INVESTMENTS

Investments as of May 31, consisted of the following:

	2015	2014
	(In thousands)	
Equity securities	$ 80,199	$ 79,082
Equity funds	21,679	18,191
Fixed-income investments	70,289	30,849
Short-term investments	305	48
Real estate	25,104	20,831
Alternative investments:		
Equity funds	28,739	11,074
Private capital	48,380	45,308
Real asset funds	12,620	12,584
Hedge funds	67,937	59,956
	$ 355,252	$ 277,923

Net realized and unrealized gain (loss) on investments as of May 31, 2015 and 2014, include management fees of approximately $2,337,000 and $2,030,000, 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 financial statements.

NOTE 5 – FAIR VALUE MEASUREMENTS

The financial assets and liabilities carried on the statements of financial position by level within the valuation hierarchy as of May 31, 2015 and 2014, were as follows:

	Fair Value Measurements 2015			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Assets				
Cash equivalents - Variable rate demand notes	$ 26,347	$ 15,207	$ -	$ 41,554
Investments				
Equity securities	80,199	-	-	80,199
Equity funds	-	21,679	-	21,679
Fixed-income investments	69,796	493	-	70,289
Short-term investments	305	-	-	305
Real estate	-	-	25,104	25,104
Alternative investments:				
Equity funds	-	10,406	18,333	28,739
Private capital	-	-	48,380	48,380
Real asset funds	-	-	12,620	12,620
Hedge funds	-	22,101	45,836	67,937
Total investments	150,300	54,679	150,273	355,252
Beneficial interest in trusts	-	-	12,362	12,362
Total fair value of assets presented	$ 176,647	$ 69,886	$ 162,635	$ 409,168
Liabilities				
Interest rate swap agreements	$ -	$ 16,663	$ -	$ 16,663
Total fair value of liabilities presented	$ -	$ 16,663	$ -	$ 16,663

	Fair Value Measurements 2014			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Assets				
Cash equivalents - Variable rate demand notes	$ 60,848	$ 26,140	$ -	$ 86,988
Investments				
Equity securities	79,082	-	-	79,082
Equity funds	-	18,191	-	18,191
Fixed-income investments	29,686	1,163	-	30,849
Short-term investments	48	-	-	48
Real estate	-	-	20,831	20,831
Alternative investments:				
Equity funds	-	-	11,074	11,074
Private capital	-	-	45,308	45,308
Real asset funds	-	-	12,584	12,584
Hedge funds	-	18,086	41,870	59,956
Total investments	108,816	37,440	131,667	277,923
Beneficial interest in trusts	-	-	11,248	11,248
Total fair value of assets presented	$ 169,664	$ 63,580	$ 142,915	$ 376,159
Liabilities				
Interest rate swap agreements	$ -	$ 14,086	$ -	$ 14,086
Total fair value of liabilities presented	$ -	$ 14,086	$ -	$ 14,086

The quantitative information about significant unobservable inputs related to Level 3 direct investments in real estate fair value measurements used at May 31, 2015, was as follows:

	Fair Value (In thousands)	Valuation Techniques	Unobservable Inputs	Range (Weighted Average)
Residential real estate	$ 25,104	Sales comparable	Price per square foot	$260.10-$1,165.80 ($788.09)

The changes in investments classified as Level 3 were as follows for the years ended May 31, 2015 and 2014:

2015 (In thousands)	Real Estate	Private Capital	Real Asset Funds	Hedge Funds	Equity Funds	Total
Balance, May 31, 2014	$ 20,831	$ 45,308	$ 12,584	$ 41,870	$ 11,074	$ 131,667
Total realized and unrealized gain	4,273	8,778	76	2,318	2,259	17,704
Purchases	-	5,403	2,095	6,000	5,000	18,498
Sales	-	(11,109)	(2,135)	(1,521)	-	(14,765)
Transfers in and/or out of Level 3	-	-	-	(2,831)	-	(2,831)
Balance, May 31, 2015	$ 25,104	$ 48,380	$ 12,620	$ 45,836	$ 18,333	$ 150,273
Unrealized gains (losses) included in the changes in net assets relating to Level 3 investments still held at May 31, 2015	$ 4,273	$ 2,860	$ (838)	$ 2,318	$ 2,259	$ 10,872

2014 (In thousands)	Real Estate	Private Capital	Real Asset Funds	Hedge Funds	Equity Funds	Total
Balance, May 31, 2013	$ 17,956	$ 46,329	$ 11,394	$ 42,420	$ -	$ 118,099
Total realized and unrealized gain	3,195	8,550	1,696	4,008	-	17,449
Purchases	180	1,883	1,613	19,000	-	22,676
Sales	(500)	(11,454)	(2,119)	(9,964)	-	(24,037)
Transfers in and/or out of Level 3	-	-	-	(13,594)	11,074	(2,520)
Balance, May 31, 2014	$ 20,831	$ 45,308	$ 12,584	$ 41,870	$ 11,074	$ 131,667
Unrealized gain included in the changes in net assets relating to Level 3 investments still held at May 31, 2014	$ 3,195	$ 8,550	$ 1,696	$ 3,940	$ -	$ 17,381

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

The University evaluates its financial assets and liabilities carried on the statements of financial position by level and transfers between levels based upon its ability to liquidate its investments at May 31 each fiscal year. There were two transfers from Level 3 to Level 2 for investment funds with redemption lockups, which expired during the year ended May 31, 2015. 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, 2015. The University has commitments under some of the associated investment agreements to make additional capital contributions as noted.

2015		Fair Value (In thousands)	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Level 2	Equity funds	$ 32,085	$ -	Daily, monthly	1-28 days
	Hedge funds	22,101	-	Quarterly	5-90 days
Level 3	Equity funds	18,333	-	Quarterly, over 3 years	45-120 days
	Private capital	48,380	26,663	Not eligible	-
	Real asset funds	12,620	7,244	Not eligible	-
	Hedge funds	45,836	-	Monthly, quarterly, annually, over 3 years	5-120 days

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 5% in private equity. Approximately 50% of the funds are redeemable on a daily basis with up to 28 days' notice. Another approximately 25% are redeemable monthly or quarterly with 6-45 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 5 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 50% 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 16% of the private capital category. Buyout funds, which represent approximately 22% of the category, invest in small-, mid-, 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:

	2015	2014
	(In thousands)	
Buildings and improvements	$ 453,073	$ 445,585
Construction in progress	3,487	2,175
Furniture and equipment	57,435	55,939
Land and land improvements	31,606	31,606
Library books and collections	76,958	77,187
Property, plant, and equipment - total	622,559	612,492
Less accumulated depreciation	(200,199)	(184,016)
Property, plant, and equipment - net	$ 422,360	$ 428,476

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 defease prior bond issues. Bonds payable as of May 31, consisted of the following:

	2015	2014
	(In thousands)	
California Educational Facilities Authority:		
Revenue bonds:		
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	$ 69,770	$ 72,270
CEFA Series 2005B; variable interest rate, principal due annually beginning October 1, 2007, and applicable interest due monthly in varying amounts through 2035; secured by a letter of credit issued by JPMorgan Chase	25,800	26,200
CEFA Series 2003; variable interest rate, principal due annually beginning May 31, 2004, and applicable interest due monthly in varying amounts through 2033; secured by a letter of credit issued by JPMorgan Chase	33,415	33,970
CEFA Series 2000; variable interest rate, first principal payment due on June 1, 2004, then due annually beginning May 1, 2005 through 2030, and applicable interest due monthly in varying amounts through 2030; secured by a letter of credit issued by JPMorgan Chase	17,700	18,500
	146,685	150,940
Net unamortized premium on bonds payable	250	268
	$ 146,935	$ 151,208

Aggregate annual maturities of bonds payable are as follows:

Years Ending May 31, (In thousands)		
2016	$	4,465
2017		4,565
2018		4,770
2019		4,880
2020		4,995
Thereafter		123,010
	$	146,685

In conjunction with the issuance of the 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.

The fair values of the CEFA bonds at May 31, 2015 and 2014, were approximately $156,201,000 and $158,275,000, 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 3.69% and 3.72% as of May 31 2015 and 2014, respectively.

NOTE 8 – NOTE 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. The University will repay the bank principal amount in equal annual installments of $1,500,000 on May 1 of each year (beginning May 1, 2013) until the maturity date of May 1, 2019, when the final principal repayment installment will be repaid. The term loan bears interest at a rate per annum equal to 3.09% and is secured by a first priority parity security interest in all of the gross unrestricted revenues of the University.

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

	2015	2014
	(In thousands)	
Term loan; fixed interest rate per annum equal to 3.09%; principal due annually beginning May 1, 2013, and applicable interest due quarterly; maturity date through May 1, 2019; secured by a first priority parity interest of all gross unrestricted revenues of the University	$ 23,000	$ 24,500

Aggregate annual maturities of the note payable is as follows:

Years Ending May 31, (In thousands)		
2016	$	1,500
2017		1,500
2018		1,500
2019		18,500
	$	23,000

The effective interest rate on the University's note payable was 3.13% as of May 31, 2015 and 2014.

The fair value of the note payable at May 31, 2015 and 2014, was approximately $24,367,000 and $25,883,000, respectively. The note payable is categorized as Level 2 within the fair value hierarchy discussed in Note 1.

On July 15, 2015, subsequent to the end of the fiscal year, the 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.

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 table presents the University's endowment pool composition as of May 31, 2015 and 2014, by type of fund:

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	(In thousands)			
Donor-restricted endowment fund	$ -	$ 92,420	$ 137,200	$ 229,620
Board-designated endowment fund	81,994	-	-	81,994
Total endowment funds	$ 81,994	$ 92,420	$ 137,200	$ 311,614

	2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	(In thousands)			
Donor-restricted endowment fund	$ -	$ 86,564	$ 128,845	$ 215,409
Board-designated endowment fund	58,816	-	-	58,816
Total endowment funds	$ 58,816	$ 86,564	$ 128,845	$ 274,225

The changes in the University's endowments for the years ended May 31, 2015 and 2014, were as follows:

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	(In thousands)			
Endowment net assets - May 31, 2014	$ 58,816	$ 86,564	$ 128,845	$ 274,225
Investment income	577	1,778	-	2,355
Realized and unrealized gain on investments - net of fees	4,629	15,735	-	20,364
Additions to investment pool	16,253	-	8,355	24,608
Appropriation of endowment assets for expenditure	(1,939)	(7,999)	-	(9,938)
Appropriation of endowment assets for purpose	3,658	(3,658)	-	-
Endowment net assets - May 31, 2015	$ 81,994	$ 92,420	$ 137,200	$ 311,614

	2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
	(In thousands)			
Endowment net assets - May 31, 2013	$ 50,304	$ 64,807	$ 119,958	$ 235,069
Investment income	403	1,527	-	1,930
Realized and unrealized gain on investments - net of fees	5,889	21,893	-	27,782
Additions to investment pool	1,198	8,365	8,887	18,450
Appropriation of endowment assets for expenditure	(1,851)	(7,155)	-	(9,006)
Transfer for underwater endowments	2,873	(2,873)	-	-
Endowment net assets - May 31, 2014	$ 58,816	$ 86,564	$ 128,845	$ 274,225

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

	2015	2014
	(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	$ 10,785	$ 8,850
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	137,200	128,845
	$ 147,985	$ 137,695
Temporarily Restricted Net Assets		
The portion of perpetual endowment funds subject to a time restriction under UPMIFA not participating in the investment pool	$ 56	$ 56
The portion of perpetual endowment funds subject to a time restriction under UPMIFA	92,420	86,564
Total accumulated appreciation of permanently restricted funds not appropriated for expenditure	$ 92,476	$ 86,620

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. Deficits of this nature reported in unrestricted net assets totaled $0 as of May 31, 2015 and 2014. 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, 2015 and 2014, 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 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:

	2015	2014
	(In thousands)	
Acquisition of property, plant, and equipment	$ 4,826	$ 2,671
Accumulated appreciation of endowment funds not appropriated for expenditure	92,477	86,620
Passage of time	17,354	11,709
Scholarship and departmental programs	67	65
Total	$ 114,724	$ 101,065

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

	2015	2014
	(In thousands)	
Purpose restrictions accomplished:		
Renovation of University facilities	$ 3,274	$ 1,672
Scholarship, departmental, and other programs	3,658	2,873
Time restrictions expired	1,403	1,305
Endowment appropriation for spending	7,999	7,155
Total	$ 16,334	$ 13,005

NOTE 11 – FINANCIAL AID TO STUDENTS

Financial aid to students reported in the 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:

	2015	2014
	(In thousands)	
University tuition and fees	$ 74,969	$ 69,034
Endowment distribution	7,280	5,312
Donor contributions for current use	2,759	1,902
Government grants	682	637
Total	$ 85,690	$ 76,885

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 $1,991,000 and $1,861,000 for the years ended May 31, 2015 and 2014, respectively. In the opinion of the University's management, such salaries are comparable to those of other University employees. Additionally, at May 31, 2015 and 2014, the University had accounts receivable balances of $163,000 and $167,000, 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, 2015 and 2014 ($7,352,000 net book value at May 31, 2015, and $7,562,000 net book value at May 31, 2014).

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 eight limited partnership agreements in which a trustee or trustee emeritus is a partner. These transactions were approved by the Board. As of May 31, 2015 and 2014, the University had contributed approximately $9,300,000 and $8,300,000, respectively, to such partnerships, which are included in private capital. As of May 31, 2015 and 2014, the University had committed to make additional capital contributions of approximately $2,050,000 and $1,800,000, 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 – College Retirement Equities Fund. 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 and $260,000 for tax years 2015 and 2014, respectively. Total retirement expense under the Plan was $13,440,000 and $12,696,000 for the years ended May 31, 2015 and 2014, respectively, which is net of total forfeitures under the Plan of $477,000 and $232,000 for the years ended May 31, 2015 and 2014, 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, 2015, the University holds $219,000 in investments for the plan and a corresponding liability of $219,000 due to the participants in the plan.

NOTE 14 – COMMITMENTS AND CONTINGENCIES

The University has entered into 59 limited partnership arrangements for investment purposes, whereby the University has committed to make capital contributions to the partnerships of approximately $129,353,000. These commitments include the related-party commitment of $11,350,000 as discussed in Note 12. As of May 31, 2015 and 2014, the University had contributed approximately $102,349,000 and $87,077,000, respectively, to the partnerships.

The University has various purchase commitments totaling $1,638,000 at May 31, 2015, 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)		
2016	$	2,512
2017		2,249
2018		1,924
2019		1,541
2020		1,468
Thereafter		1,386
	$	11,080

Rent expense was $3,702,000 and $3,230,000 for the years ended May 31, 2015 and 2014, respectively.

NOTE 15 – SUBSEQUENT EVENTS

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

Except as discussed in Note 8 to the financial statements, the University's management determined that there are no material events that occurred subsequent to the statement of financial position date and through September 25, 2015, the date the financial statements are issued, which would require adjustments to or disclosures in the financial statements.

SUPPLEMENTARY INFORMATION

UNIVERSITY OF SAN FRANCISCO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended May 31, 2015
(In thousands)

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number or Other Identifying Number	Pass-Through Entity Identifying Number	Federal Expenditures
Student Financial Aid - Cluster - Department of Education and			
Department of Health and Human Services:			
Federal Supplemental Educational Opportunity Grants	84.007		$ 682
Federal Work-Study Program	84.033		957
Federal Pell Grant Program	84.063		7,660
Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	84.063		140
Total Student Financial Aid Awards			9,439
Federal Perkins Loan Program	84.038		8,065
Federal Direct Student Loans	84.268		102,927
Nurse Faculty Loan Program	93.264		1,020
Nursing Student Loans	93.364		1,331
Total Student Financial Aid Loan Programs			113,343
Total Student Financial Aid Cluster			122,782
Research and Development - Cluster:			
National Science Foundation:			
Mathematical and Physical Sciences	47.049		147
Computer and Information Science and Engineering	47.070		27
Social, Behavioral, and Economic Sciences	47.075		8
Education and Human Resources	47.076		8
Polar Programs	47.078		22
Department of Health and Human Services - National Institutes of Health:			
Cancer Cause and Prevention Research	93.393		1
Allergy, Immunology, and Transplantation Research	93.855		219
Department of Commerce - National Oceanic and Atmospheric Administration:			
Pass-through Program from the Point Blue Conservation Science - Coastal Zone Management Administration Awards	11.419	14-025	11
Department of Defense National Security:			
Mathematical Sciences Grants Program	12.901		3
Total Research and Development Cluster			446
Department of Health and Human Services - National Institutes of Health:			
Pass-through Program from the Regents of the University of California, San Francisco - Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	8299sc	14
Total Department of Health and Human Services			14
Department of Education:			
Office of Assistant Secretary for Postsecondary Education:			
TRIO - Upward Bound	84.047		455
Office of Innovation and Improvement:			
Transition to Teaching	84.350		397
Pass-through Program from YMCA of San Francisco - Adult Education - Basic Grants to States	84.002	V002A140005	15
Total Department of Education			867
Corporation for National and Community Service:			
Pass-through Program from the State of California Office of Planning and Research/California Volunteers - Americorps	94.006	11AFHY20-F163	2
Total Corporation for National and Community Service			2
Agency for International Development:			
Pass-through Program from the University of California Davis - USAID Foreign Assistance for Programs Overseas	98.001	201121454-19	56
Department of Agriculture Food and Nutrition Service:			
Pass-through Program from the California Department of Education - Summer Food Service Program for Children	10.559	38-9380	2
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 124,169

See accompanying notes to schedule of expenditures of federal awards.

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards is a summary of the expenditures of the University's federal awards on an accrual basis. Expenditures are recognized following the cost principles contained in OMB Circular A-21, *Cost Principles for Educational Institutions*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

NOTE 2 – LOAN PROGRAMS ADMINISTERED BY THE UNIVERSITY

In accordance with the requirements of OMB Circular A-133, within the schedule of expenditures of federal awards, the Federal Perkins Loan Program, Nursing Student Loans, and the Nurse Faculty Loan Program are shown as the value of loans outstanding at May 31, 2015, while the Federal Direct Student Loans are shown as the new loan disbursements during the year ended May 31, 2015.

NOTE 3 – SUBRECIPIENTS

Certain funds are passed through to subrecipient organizations by the University. Expenditures incurred by the subrecipients and reimbursed by the University are included in the schedule of expenditures of federal awards. The University is also the subrecipient of federal funds, which are reported as expenditures and listed separately as federal pass-through funds. Of the federal expenditures presented in the schedule of expenditures of federal awards, the University provided federal awards to subrecipients as follows:

CFDA Number	Program Title	Amount Provided to Subrecipients (In thousands)
84.350	Transition to Teaching	$ 217
98.001	USAID Foreign Assistance for Programs Overseas	32

REPORT OF INDEPENDENT AUDITORS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Trustees
University of San Francisco

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the University of San Francisco (the "University"), which comprise the statement of financial position as of May 31, 2015, and the related statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements and have issued our report thereon dated September 25, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the University's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Moss Adams LLP

San Francisco, California
September 25, 2015

REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE AS REQUIRED BY OMB CIRCULAR A-133

To the Board of Trustees
University of San Francisco

Report on Compliance for Each Major Federal Program

We have audited the University of San Francisco's (the "University") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the University's major federal programs for the year ended May 31, 2015. The University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the University's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the University's compliance.

Opinion on Each Major Federal Program

In our opinion, the University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended May 31, 2015.

Report on Internal Control over Compliance

Management of the University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the University's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Moss Adams LLP

San Francisco, California
September 25, 2015

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: *Unmodified*

Internal control over financial reporting:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(ies) identified? ☐ Yes ☒ None reported

Noncompliance material to financial statements noted? ☐ Yes ☒ No

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(ies) identified? ☐ Yes ☒ None reported

Type of auditors' report issued on compliance for major federal programs: *Unmodified*

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? ☐ Yes ☒ No

Identification of Major Federal Programs

CFDA Numbers	*Name of Federal Program or Cluster*
Various	Student Financial Aid Cluster
84.047	TRIO-Upward Bound

Dollar threshold used to distinguish between type A and type B programs: $300,000

Auditee qualified as low-risk auditee? ☒ Yes ☐ No

Section II - Financial Statement Findings

None reported

Section III - Federal Award Findings and Questioned Costs

None reported