

**CALIFORNIA LUTHERAN UNIVERSITY
AND AFFILIATE**

Consolidated Financial Statements
Including Independent Auditors' Report

May 31, 2010 and 2009

CALIFORNIA LUTHERAN UNIVERSITY AND AFFILIATE

TABLE OF CONTENTS

Independent Auditors' Report	1
Consolidated Statements of Financial Position	2
Consolidated Statements of Activities	3 - 4
Consolidated Statements of Cash Flows	5
Notes to Consolidated Financial Statements	6 - 26
Independent Auditors' Report on Other Financial Information	27
Consolidated Statement of Activities - Measure of Operations	28

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated statements of financial position of California Lutheran University and its affiliated entity as of May 31, 2010 and 2009, and the related consolidated statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of California Lutheran University and its affiliated entity at May 31, 2010 and 2009, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, in fiscal year 2009, the University adopted authoritative guidance on Fair Value Measurements and Endowment Funds Net Asset Classifications.

Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
September 29, 2010

CALIFORNIA LUTHERAN UNIVERSITY AND AFFILIATE

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
May 31, 2010 and 2009

ASSETS		
	<u>2010</u>	<u>2009</u>
Cash and cash equivalents	\$ 7,553,714	\$ 2,797,785
Receivables		
Student accounts, net of allowance for doubtful accounts of \$207,000 in 2010 and \$257,000 in 2009	1,722,550	1,509,286
Grants	1,752,912	215,686
Contributions	6,528,979	4,932,590
Other	1,425,180	1,685,836
Prepaid expenses, inventories and deposits	1,148,837	699,976
Student notes receivable, net of allowance for doubtful notes of \$85,000 in 2010 and 2009	1,748,410	1,710,728
Investments		
Endowment	49,672,968	41,759,078
Deferred gifts held by University	2,579,476	2,557,212
California Lutheran Educational Foundation investments	7,400,608	7,144,028
Other	958,240	926,009
Funds held in trust by others	232,571	243,952
Deposits with trustee		
Cash and short-term investments - available	10,505,124	10,562,900
Cash and short-term investments - reserved	12,735,011	22,621,790
Debt acquisition costs	2,249,621	2,338,385
Construction in progress	7,696,206	15,856,357
Property, plant and equipment, net	<u>108,703,517</u>	<u>93,114,135</u>
TOTAL ASSETS	\$ 224,613,924	\$ 210,675,733
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 1,895,722	\$ 2,829,434
Accrued liabilities	7,381,543	7,300,669
Student housing deposits	395,006	333,660
Deferred revenue	956,321	1,280,780
Long-term debt	75,672,567	76,607,254
Annuities payable	6,520,792	6,436,770
Deposits held in trust for others	322,613	299,312
Government grants refundable	<u>1,534,833</u>	<u>1,512,421</u>
Total Liabilities	<u>94,679,397</u>	<u>96,600,300</u>
NET ASSETS		
Unrestricted	78,083,035	71,206,074
Temporarily restricted	20,069,759	13,916,979
Permanently restricted	<u>31,781,733</u>	<u>28,952,380</u>
Total Net Assets	<u>129,934,527</u>	<u>114,075,433</u>
TOTAL LIABILITIES AND NET ASSETS	\$ 224,613,924	\$ 210,675,733

See accompanying notes to consolidated financial statements.

CALIFORNIA LUTHERAN UNIVERSITY AND AFFILIATE

CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended May 31, 2010

With Comparative Totals for 2009

	2010			2009 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
REVENUES, GAINS AND OTHER SUPPORT				
Tuition and fees	\$ 78,825,653			\$ 78,825,653
Less: Scholarships and grants	24,992,512			24,992,512
Net tuition and fees	53,833,141			49,748,348
Government grants	1,996,117			1,592,255
Contributions	1,489,754	\$ 7,629,830	\$ 2,335,134	11,454,718
Endowment income (loss)	2,862,721	2,118,632	54,829	6,884,182
Net gains (losses) on other investments	(465,654)	8,717		(456,937)
Gains on funds held in trust by others		33,594		253,872
Interest and dividends	668,499			109
Sales and services of educational activities	993,397			595,308
Other sources	2,377,779	1,356		616,528
Sales and services of auxiliary enterprises	13,784,712			2,753,369
Adjustment of actuarial liability		(49,174)	65,071	13,784,712
	77,540,466	9,742,955	2,455,034	12,183,646
Net assets released from restrictions	4,322,956	(4,322,956)		
Transfers and reclassifications	(1,107,100)	732,781	374,319	
Total Revenues, Gains and Other Support	80,756,322	6,152,780	2,829,353	89,738,455
				60,985,263
EXPENSES				
Program expenses				
Instruction	26,828,779			26,828,779
Public service	3,298,486			25,921,559
Academic support	3,691,956			2,831,149
Student services	13,463,010			3,691,956
Auxiliary enterprises	14,609,466			3,589,386
Support expenses				13,463,010
Institutional support	11,987,664			14,609,466
Allocable expenses				12,626,256
Operation and maintenance of plant	5,825,696			11,987,664
Depreciation and accretion	5,461,414			11,987,664
Interest	3,410,695			12,477,803
Less: Allocated expenses	(14,697,805)			5,825,696
Total Expenses	73,879,361			5,461,414
				4,957,394
Change in Net Assets	6,876,961	6,152,780	2,829,353	5,461,414
				4,772,389
NET ASSETS - Beginning of Year	71,206,074	13,916,979	28,952,380	3,410,695
				2,845,773
NET ASSETS - END OF YEAR	\$ 78,083,035	\$ 20,069,759	\$ 31,781,733	(14,697,805)
				(12,575,556)

See accompanying notes to consolidated financial statements.

CALIFORNIA LUTHERAN UNIVERSITY AND AFFILIATE

CONSOLIDATED STATEMENT OF ACTIVITIES

Year Ended May 31, 2009

	2009			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS AND OTHER SUPPORT				
Tuition and fees	\$ 70,382,304			\$ 70,382,304
Less: Scholarships and grants	20,633,956			20,633,956
Net tuition and fees	49,748,348			49,748,348
Government grants	1,592,255			1,592,255
Contributions	2,413,585	\$ 2,882,177	\$ 1,588,420	6,884,182
Endowment income (loss)	(7,231,143)	(5,920,690)		(13,151,833)
Net gains (losses) on other investments	253,872			253,872
Gains on funds held in trust by others	(6,652)	(3,512)	10,273	109
Interest and dividends	595,308			595,308
Sales and services of educational activities	616,528			616,528
Other sources	2,664,842	39,462	49,065	2,753,369
Sales and services of auxiliary enterprises	12,183,646			12,183,646
Adjustment of actuarial liability		535,369	(1,025,890)	(490,521)
	62,830,589	(2,467,194)	621,868	60,985,263
Net assets released from restrictions	4,854,190	(4,854,190)		
Transfer	(350,000)		350,000	
Reclassifications	(4,187)	30,000	(25,813)	
Total Revenues, Gains and Other Support	67,330,592	(7,291,384)	946,055	60,985,263
EXPENSES				
Program expenses				
Instruction	25,921,559			25,921,559
Public service	2,831,149			2,831,149
Academic support	3,589,386			3,589,386
Student services	12,823,080			12,823,080
Auxiliary enterprises	12,626,256			12,626,256
Support expenses				
Institutional support	12,477,803			12,477,803
Allocable expenses				
Operation and maintenance of plant	4,957,394			4,957,394
Depreciation and accretion	4,772,389			4,772,389
Interest	2,845,773			2,845,773
Less: Allocated expenses	(12,575,556)			(12,575,556)
Total Expenses	70,269,233			70,269,233
Change in net assets before reclassification	(2,938,641)	(7,291,384)	946,055	(9,283,970)
Net asset reclassification due to a change in law	(10,141,557)	10,141,557		
Change in Net Assets	(13,080,198)	2,850,173	946,055	(9,283,970)
NET ASSETS - Beginning of Year	84,286,272	11,066,806	28,006,325	123,359,403
NET ASSETS - END OF YEAR	<u>\$ 71,206,074</u>	<u>\$ 13,916,979</u>	<u>\$ 28,952,380</u>	<u>\$ 114,075,433</u>

See accompanying notes to consolidated financial statements.

CALIFORNIA LUTHERAN UNIVERSITY AND AFFILIATE

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended May 31, 2010 and 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 15,859,094	\$ (9,283,970)
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Interest earned on deposits with Trustee	(618,346)	(151,112)
Depreciation, amortization and accretion	5,550,178	4,983,145
(Gains) losses on investments, net	(4,579,245)	12,897,961
Change in allowance for doubtful accounts	(50,873)	47,000
Actuarial adjustment of annuities payable	807,961	(1,436,898)
Loan cancellations and write-offs	16,040	12,695
Loss on disposal of assets	8,109	
Losses on funds held in trust by others	11,381	62,839
Changes in current assets and liabilities		
Student accounts receivable	(162,391)	(236,282)
Grants receivable	(1,537,226)	14,772
Other receivables	260,656	(904,328)
Prepaid expenses, inventories and deposits	(448,861)	(90,361)
Accounts payable - operations	536,759	305,587
Accrued liabilities	49,805	487,516
Deferred revenue	(324,459)	(700,536)
Student housing deposits	61,346	(51,475)
Deposits held in trust for others	23,301	44,543
Contributions restricted for plant, loans and long-term investment	(8,370,194)	(2,396,987)
Net Cash Flows from Operating Activities	<u>7,093,035</u>	<u>3,604,109</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments, net	(3,645,720)	3,142,449
Withdrawals of deposits with trustee	10,562,901	2,442,231
Proceeds from sale of land		759,641
Purchases of property, plant and equipment, and construction in progress	(14,338,156)	(23,421,769)
Disbursements of loans to students	(177,000)	(208,000)
Repayments of loans from students	<u>123,277</u>	<u>108,131</u>
Net Cash Flows from Investing Activities	<u>(7,474,698)</u>	<u>(17,177,317)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of principal on indebtedness	(934,687)	(930,951)
Increase in refundable governmental grants, net	22,412	23,387
Payments to annuitants	(804,971)	(1,062,247)
Increase in annuities payable from new gifts	81,032	1,526,629
Contributions received restricted for plant, loans and long-term investment	<u>6,773,806</u>	<u>2,638,718</u>
Net Cash Flows from Financing Activities	<u>5,137,592</u>	<u>2,195,536</u>
Change in Cash and Cash Equivalents	4,755,929	(11,377,672)
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>2,797,785</u>	<u>14,175,457</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 7,553,714</u>	<u>\$ 2,797,785</u>

See accompanying notes to consolidated financial statements.

CALIFORNIA LUTHERAN UNIVERSITY AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2010 and 2009

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

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

General - The University maintains its accounts in accordance with the principles and practices of fund accounting. Fund accounting is the procedure by which resources for various purposes are classified for accounting purposes in accordance with activities or objectives specified by donors.

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

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

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

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

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

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

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

CALIFORNIA LUTHERAN UNIVERSITY AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2010 and 2009

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

Temporarily Restricted Net Assets - With respect to temporarily restricted net assets, the University has adopted the following accounting policies:

Reporting as Temporarily Restricted Revenues - Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues of the temporarily restricted net asset class, and a release to unrestricted net assets is made to reflect the expiration of such restrictions.

Release of Restrictions on Net Assets for Acquisition of Land, Buildings and Equipment - Contributions of land, buildings and equipment are reported as revenues of the unrestricted net asset class. Contributions of cash or other assets to be used to acquire land, buildings and equipment are reported as revenues of the temporarily restricted net asset class; the restrictions are considered to be released at the time such long-lived assets are placed in service.

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

Receivables - Student accounts receivable are carried at the unpaid balance of the original amount billed to students, less an estimate made for doubtful accounts based on historical experience and management's evaluation of receivables at the end of each year. Bad debts are expensed when deemed uncollectible. A student account receivable is considered to be past due if any portion of the balance is outstanding for more than 90 days after the billing date. Interest is not charged on past due accounts receivable. Receivables are generally unsecured.

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

Debt Acquisition Costs - Costs of bond issuance are deferred and amortized on a straight-line basis over the term of the related indebtedness. Amortization of \$88,765 and \$210,756 was recorded for the years ended May 31, 2010 and 2009, respectively.

CALIFORNIA LUTHERAN UNIVERSITY AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
May 31, 2010 and 2009

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Asset Retirement Obligations - Asset retirement obligations are estimated costs and obligations associated with the retirement of long-lived assets. These liabilities were initially recorded at fair value and the related asset retirement costs were recorded as decreases in unrestricted net assets. Asset retirement costs are subsequently accreted over the useful lives of the related assets. The asset retirement obligation of \$967,636 and \$936,567 at May 31, 2010 and 2009, respectively, is included in accrued liabilities on the statement of financial position. Accretion expense of \$31,069 and \$31,104 was recorded for the years ended May 31, 2010 and 2009, respectively.

Grants to Specified Students - Amounts received from state and federal agencies designated for the benefit of specified students are considered agency transactions and, therefore, are not reflected as revenues and expenses of the University. The amount of such grants approximated \$3,213,000 and \$2,179,000, respectively, during the year ended May 31, 2010. Corresponding amounts for the year ended May 31, 2009 were \$3,014,000 and \$1,259,000, respectively.

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

Deferred Revenue - The University has deferred revenue/advances from vendors related to its bookstore and food service operations. The amounts deferred approximate \$132,500 and \$180,000 for the years ended May 31, 2010 and 2009, respectively.

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

Pension Plans - The University has certain contributory pension plans for academic and nonacademic personnel. Contributions for employees are determined on a percentage of annual compensation. The cost of the retirement plans is paid currently and approximated \$2,570,000 and \$2,214,000 for the years ended May 31, 2010 and 2009, respectively.

Fund-Raising and Advertising Expenses - Fund-raising expenses approximated \$2,574,000 and \$2,315,000 for the years ended May 31, 2010 and 2009, respectively. Advertising costs approximated \$920,000 and \$783,000 for the years ended May 31, 2010 and 2009, respectively, and are expensed as incurred.

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

CALIFORNIA LUTHERAN UNIVERSITY AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2010 and 2009

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

In accordance with the accounting standard on *Accounting for Uncertainty in Income Taxes*, the University addresses the determination of whether tax benefits claimed on a tax return should be recorded in the financial statements. Under this guidance, the University may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merit of the position. Examples of tax positions include the tax-exempt status of the University and various positions related to the potential sources of unrelated business taxable income. There were no significant unrecognized tax benefits identified or recorded as liabilities during fiscal year 2010. Open tax years subject to examination by the U.S. and state taxing authorities are for the years 2007 to 2009, which statutes expire in 2010 to 2012, respectively.

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

Reclassifications - Certain amounts appearing in the 2009 financial statements have been reclassified to conform with the 2010 presentation. The reclassifications have no effect on reported amounts of total net assets or change in total net assets. Reclassifications of net assets from unrestricted to temporarily and permanently restricted net assets occurred to show donor designations.

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

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

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

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

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

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

CALIFORNIA LUTHERAN UNIVERSITY AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2010 and 2009

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements - The University adopted the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topics 958-205-45, 958-205-50 and 958-205-55 (formerly FASB Staff Position FSP 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classifications of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act*, and *Enhanced Disclosures*) for the year ended May 31, 2009. The Topics provide guidance on classifying net assets associated with donor-restricted endowment funds held by organizations that are subject to an enacted version of Uniform Prudent Management of Institutional Funds Act (UPMIFA). The Topics also require enhanced disclosures for all not-for-profit organizations, not just those subject to UPMIFA. The State of California adopted UPMIFA effective in 2008. As a result of adopting the provisions of the Topics, the University reclassified approximately \$10,142,000 of unrestricted net assets into temporarily restricted net assets. This represented the amount of accumulated net gains in existence at June 1, 2008 that had not yet been appropriated for spending by the University's governing board.

The University adopted the provisions of FASB ASC Topic 820 (formerly FAS No. 157, *Fair Value Measurements and Disclosures*) effective June 1, 2008. The Topic defines fair value, establishes a framework for measuring fair value and requires enhanced disclosures about fair value measures that are required under other accounting pronouncements, but did not change existing guidance as to whether or not a financial instrument is carried at fair value.

The University's adoption of ASC Topic 820 in fiscal year 2009, with respect to financial assets and liabilities measured at fair value on a recurring basis, resulted in increased disclosures in the financial statements about fair value measurements. The University's adoption in fiscal year 2010 of the provisions of this Topic with respect to nonrecurring fair value measurements of nonfinancial assets and liabilities, did not have a material impact on the University's financial statements.

Additionally, from time to time, the University may be required to measure certain assets and liabilities at fair value on a nonrecurring basis in accordance with U.S. generally accepted accounting principles. These adjustments to fair value would usually result from the application of the lower-of-cost-or-market accounting or write-down of individual assets. The University did not measure any assets or liabilities at fair value on a nonrecurring basis during the years ended May 31, 2010 or 2009.

The University also adopted the provisions of FASB ASC Topic 825 (formerly FAS No. 159, *The Fair Value Option for Financial Assets and Liabilities, including an amendment of FASB Statement No. 115*) effective June 1, 2008. ASC Topic 825 provides, among other things, an option to elect fair value as an alternative measurement for selected financial assets and liabilities not previously recorded at fair value. The University did not elect fair value accounting for any assets or liabilities that were not currently required to be measured at fair value.

In September 2009, the FASB issued ASU No. 2009-12, *Investment in Certain Entities That Calculate Net Asset Value per Share* (ASU 2009-12). ASU 2009-12 (formerly FAS No. 157-g) amends former FASB Statement No. 157, *Fair Value Measurements*, adds disclosures, and provides guidance for estimating fair value of investments in investment companies that calculate net asset value per share, allowing the Net Asset Value per Share (NAV) to be used as a practical expedient for fair value where investment companies follow the American Institute of Certified Public Accountants (AICPA) Guide in arriving at their reported NAV. The University adopted ASU 2009-12 effective June 1, 2009. See Note 2 for these additional disclosures.

CALIFORNIA LUTHERAN UNIVERSITY AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2010 and 2009

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In January 2010, the FASB issued ASU No. 2010-06, *Improving Disclosures about Fair Value Measurements*. This amends ASC 820 (formerly FAS 157-4) to require additional disclosures. The guidance requires entities to disclose transfers of assets in and out of Levels 1 and 2 of the fair value hierarchy, and the reasons for those transfers. ASU 2010-06 is effective for fiscal year 2011. In addition, the guidance requires separate presentation of purchases and sales in the Level 3 asset reconciliation; which is effective for fiscal year 2012. The adoption of this guidance is not expected to have a material impact on the University's financial statements.

NOTE 2 - FAIR VALUE MEASUREMENTS

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

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

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

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

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

CALIFORNIA LUTHERAN UNIVERSITY AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2010 and 2009

NOTE 2 - FAIR VALUE MEASUREMENTS (CONTINUED)

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

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
ASSETS				
Funds held in trust by others	\$ 232,571	\$	\$	\$ 232,571
Investments				
Cash and short term investments	6,313,528		6,313,528	
Stocks	19,902,084	19,902,084		
Corporate and government bonds	25,673,151	25,673,151		
Partnerships and hedge funds	5,666,673			5,666,673
	<u>57,555,436</u>	<u>45,575,235</u>	<u>6,313,528</u>	<u>5,666,673</u>
Total Assets	<u>\$ 57,788,007</u>	<u>\$ 45,575,235</u>	<u>\$ 6,313,528</u>	<u>\$ 5,899,244</u>

The following table summarizes financial instruments measured at fair value on a recurring basis by classification within the fair value hierarchy as of May 31, 2009:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
ASSETS				
Funds held in trust by others	\$ 243,952	\$	\$	\$ 243,952
Investments				
Cash and short term investments	2,927,521		2,927,521	
Stocks	20,678,418	20,678,418		
Corporate and government bonds	21,410,511	21,410,511		
Partnerships and hedge funds	5,297,270			5,297,270
	<u>50,313,720</u>	<u>42,088,929</u>	<u>2,927,521</u>	<u>5,297,270</u>
Total Assets	<u>\$ 50,557,672</u>	<u>\$ 42,088,929</u>	<u>\$ 2,927,521</u>	<u>\$ 5,541,222</u>

CALIFORNIA LUTHERAN UNIVERSITY AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2010 and 2009

NOTE 2 - FAIR VALUE MEASUREMENTS (CONTINUED)

The following methods and assumptions were used to estimate the fair value for each class of financial instrument measured at fair value:

Cash and short-term investments - Short-term investments consist primarily of money market funds. They are classified as Level 2 as these funds are not traded on a regular basis.

Stocks - Investments in common stocks are measured at fair value using quoted market prices. They are classified as Level 1 as they are traded in an active market for which closing stock prices are readily available.

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

Partnerships and hedge funds - Investments in hedge funds, private equity funds, real estate funds, and venture capital funds for which there is no readily determinable fair value are classified as level 3 as the valuation is based on significant unobservable inputs. In cases where the investee has provided its investors with a net asset value per share that has been calculated in accordance with the AICPA Audit and Accounting Guide, *Investment Companies*, the University has estimated its fair value by using the net asset value provided by the investee as of December 31, adjusted for cash receipts, cash disbursements, significant known valuation changes in market values of publicly held securities contained in the portfolio and security distributions through May 31.

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

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

CALIFORNIA LUTHERAN UNIVERSITY AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2010 and 2009

NOTE 2 - FAIR VALUE MEASUREMENTS (CONTINUED)

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

	Balances May 31, 2009	Net realized and unrealized gains (losses) included in change in net assets	Purchases, sales, issuances and settlement, net	Balances May 31, 2010
Partnerships and hedge funds				
Hedge funds	\$ 2,745,341	\$ 621,031	\$ (1,347,576)	\$ 2,018,796
Private equity funds	1,270,166	306,005	535,115	2,111,286
Real estate funds	304,775	(47,279)	237,470	494,966
Venture capital funds	976,988	(140,669)	205,306	1,041,625
	<u>5,297,270</u>	<u>739,088</u>	<u>(369,685)</u>	<u>5,666,673</u>
Funds held in trust by others	<u>243,952</u>	<u>(11,381)</u>		<u>232,571</u>
Total	<u>\$ 5,541,222</u>	<u>\$ 727,707</u>	<u>\$ (369,685)</u>	<u>\$ 5,899,244</u>

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

The following table presents a reconciliation of the statement of financial position amounts for financial instruments measured at fair value on a recurring basis using significant unobservable inputs (level 3) for the year ended May 31, 2009:

	Balances May 31, 2008	Net realized and unrealized gains (losses) included in change in net assets	Purchases, sales, issuances and settlement, net	Balances May 31, 2009
Partnerships and hedge funds				
Hedge funds	\$ 4,985,398	\$ (2,240,057)	\$	\$ 2,745,341
Private equity funds	1,201,416	(490,125)	558,875	1,270,166
Real estate funds	243,052	(63,277)	125,000	304,775
Venture capital funds	1,134,623	(243,902)	86,267	976,988
	<u>7,564,489</u>	<u>(3,037,361)</u>	<u>770,142</u>	<u>5,297,270</u>
Funds held in trust by others	<u>306,791</u>	<u>(62,839)</u>		<u>243,952</u>
Total	<u>\$ 7,871,280</u>	<u>\$ (3,100,200)</u>	<u>\$ 770,142</u>	<u>\$ 5,541,222</u>

The amount of total gains or losses for the period included in change in net assets attributable to the change in unrealized gains or losses relating to financial instruments still held at May 31, 2009 \$ (2,299,210)

CALIFORNIA LUTHERAN UNIVERSITY AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2010 and 2009

NOTE 2 - FAIR VALUE MEASUREMENTS (CONTINUED)

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

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

	<u>Other Funds</u>	<u>Hedge Funds</u>
Fair value, May 31, 2010	\$3,647,877	\$2,018,796
Significant Investment Strategy	Venture and buyout, in the US and International	Absolute total return in long/short equity and multi-strategy hedge funds; Commodity index fund
Remaining Life	5 to 10 years	Open ended
Dollar amount of unfunded commitments	\$3,500,000	None
Timing to Draw Down Commitments	0 to 5 years	Not applicable
Redemption Restrictions	Redemptions not permitted	\$48,137 subject to redemption; \$1,970,661 subject to no redemption
Redemption Restrictions in Place at Year End	Yes	See above

CALIFORNIA LUTHERAN UNIVERSITY AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS May 31, 2010 and 2009

NOTE 3 - INVESTMENTS

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

	2010	2009
ENDOWMENT INVESTMENTS		
Cash and short-term investments	\$ 5,203,684	\$ 1,767,670
Marketable securities		
Stocks	16,353,963	17,215,411
Corporate and government bonds	20,384,058	16,332,129
Alternative investments		
Investment in domestic and foreign limited partnerships and hedge funds	5,666,673	5,297,270
Real estate and other - cost	830,502	502
Cash surrender value of life insurance - at cost	1,234,088	1,146,096
	<u>\$ 49,672,968</u>	<u>\$ 41,759,078</u>
DEFERRED GIFT INVESTMENTS		
Corporate and government bonds	\$ 2,546,450	\$ 2,557,212
Real estate - cost	33,026	
	<u>\$ 2,579,476</u>	<u>\$ 2,557,212</u>
CALIFORNIA LUTHERAN EDUCATIONAL FOUNDATION (CLEF) INVESTMENTS		
Cash and short-term investments	\$ 1,109,844	\$ 1,159,851
Marketable securities		
Stocks	3,548,121	3,463,007
Corporate and government bonds	2,742,643	2,521,170
	<u>\$ 7,400,608</u>	<u>\$ 7,144,028</u>
OTHER INVESTMENTS		
Certificates of deposit - at cost	\$ 654,798	\$ 628,086
Cash surrender value of life insurance - at cost	303,442	297,923
	<u>\$ 958,240</u>	<u>\$ 926,009</u>
TOTAL INVESTMENTS	<u>\$ 60,611,292</u>	<u>\$ 52,386,327</u>
Investments at fair value	\$ 57,555,436	\$ 50,313,720
Investments at cost	3,055,856	2,072,607
TOTAL INVESTMENTS	<u>\$ 60,611,292</u>	<u>\$ 52,386,327</u>

CLEF investments are held principally for funding deferred gift arrangements.

Endowment investment income is comprised of \$1,026,544 interest and dividends and \$4,009,638 realized and unrealized gains or (losses) for 2010. Corresponding amounts for 2009 are \$952,667 and \$(14,104,500), respectively. Realized and unrealized gains are net of custodian and investment advisory fees of \$67,933 for 2010 and \$139,193 for 2009.

CALIFORNIA LUTHERAN UNIVERSITY AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2010 and 2009

NOTE 3 - INVESTMENTS (CONTINUED)

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

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

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

NOTE 4 - CONTRIBUTIONS RECEIVABLE

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

	<u>2010</u>	<u>2009</u>
Temporarily restricted - plant projects	\$ 7,227,340	\$ 5,372,115
Less: Present value discount	<u>(698,361)</u>	<u>(439,525)</u>
Contributions Receivable, net	<u>\$ 6,528,979</u>	<u>\$ 4,932,590</u>
Amounts due in:		
Less than one year	\$ 4,553,942	
One to five years	<u>1,975,037</u>	
	<u>\$ 6,528,979</u>	

Gross unconditional promises to give have been reduced by a 14.4% allowance for unfulfilled pledges of \$1,215,814 and \$975,529 at May 31, 2010 and 2009, respectively. An interest rate of 5% was used at May 31, 2010 and 2009 to discount net unconditional promises to give.

Approximately \$4 million and \$3 million of the contributions receivable at May 31, 2010 and 2009, respectively, are due from members of the governing board of the University.

CALIFORNIA LUTHERAN UNIVERSITY AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2010 and 2009

NOTE 5 - CONSTRUCTION IN PROGRESS

At May 31, 2010, the following major projects were in progress:

	Estimated Total Cost	Cost to Date	Funding Plan
Swenson Academic Building	\$ 8,900,000	\$ 5,465,000	Donations
Preschool building	2,000,000	512,000	Donations
KCLU building	4,500,000	708,000	Donations
Other projects		<u>1,011,206</u>	Operations
		<u>\$ 7,696,206</u>	

NOTE 6 - PROPERTY, PLANT AND EQUIPMENT

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

	2010	2009
Land	\$ 946,660	\$ 946,660
Improvements other than buildings	35,500,654	34,550,656
Buildings	106,849,986	87,724,205
Equipment	10,318,582	9,571,629
Library books or materials	<u>3,282,498</u>	<u>3,117,517</u>
	156,898,380	135,910,667
Less: Accumulated depreciation	<u>(48,194,863)</u>	<u>(42,796,532)</u>
Property, plant and equipment, net	<u>\$ 108,703,517</u>	<u>\$ 93,114,135</u>

Depreciation expense totaled \$5,430,345 and \$4,741,285 for the years ended May 31, 2010 and 2009, respectively.

CALIFORNIA LUTHERAN UNIVERSITY AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2010 and 2009

NOTE 7 - RESTRICTIONS AND LIMITATIONS ON NET ASSET BALANCES

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

	2010	2009
Endowment funds	\$ 29,207,847	\$ 26,381,957
Student loan funds	304,278	304,278
Annuity, life income and similar funds	2,237,520	2,170,178
Perpetual trusts held by others	32,088	95,967
	<u>\$ 31,781,733</u>	<u>\$ 28,952,380</u>

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

Gifts and other unexpended revenues and gains available for:		
Scholarships, instruction and other departmental support	\$ 8,182,376	\$ 5,910,771
Acquisition of buildings and equipment	11,294,434	7,457,269
Term endowment fund	263,229	231,509
	<u>19,740,039</u>	<u>13,599,549</u>
Annuity, life income and similar funds	329,720	317,430
	<u>\$ 20,069,759</u>	<u>\$ 13,916,979</u>

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

Operations	\$ 13,649,883	\$ 10,986,801
Long-term investment	14,864,899	11,708,587
Plant	49,568,253	48,510,686
	<u>\$ 78,083,035</u>	<u>\$ 71,206,074</u>

NOTE 8 - NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from temporary donor restrictions during the years ended May 31, 2010 and 2009 by incurring expenses satisfying the restricted purposes or by occurrence of events specified by the donors as follows:

	2010	2009
Maturity of annuity, life income and similar funds	\$	\$ 120,946
Scholarships, instruction and other departmental support	2,115,441	2,347,288
Acquisition of buildings and equipment	2,207,515	2,385,956
	<u>\$ 4,322,956</u>	<u>\$ 4,854,190</u>

CALIFORNIA LUTHERAN UNIVERSITY AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2010 and 2009

NOTE 9 - LONG-TERM DEBT

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

	<u>2010</u>	<u>2009</u>
Notes payable	\$ 4,332,567	\$ 4,637,254
California Educational Facilities Authority (CEFA)		
Revenue Bonds		
1999 Series	1,980,000	2,075,000
2004 Series A	5,465,000	5,465,000
2004 Series C	25,835,000	26,370,000
2008 Series	<u>38,060,000</u>	<u>38,060,000</u>
	<u>\$ 75,672,567</u>	<u>\$ 76,607,254</u>

The University has 14 bank notes outstanding at May 31, 2010 and May 31, 2009 totaling \$4,231,343 and \$4,534,089, respectively, which are secured by individual homes. The notes carry interest rates between 4.92% and 6.01%, and require total monthly payments of \$46,757. Ten of the notes mature in February of 2019, one matures in May 2021, one matures in April 2022 and two mature in February 2023. The University also has one unsecured note outstanding at May 31, 2009 and 2008, payable to an outside party, totaling \$101,224 and \$103,165, respectively. The note carries an interest rate of 8.00%, and requires monthly payments of \$844. The note matures on July 14, 2010.

The University had loans outstanding with CEFA as follows:

The 1999 Series bonds were issued to finance a portion of the costs for a new residence hall. The 1999 Series bonds have interest rates varying from 4.7% to 5.25%, and mature annually on April 1, 2011 through April 1, 2024 in amounts from \$100,000 to \$195,000. The CEFA 99 indenture is secured by real property.

The 2004A bonds were issued to finance the cost of the construction and equipping of certain educational facilities, and paying certain costs of issuance of the Series 2004A bonds. The bonds were issued November 16, 2004 and will mature October 1, 2029. Interest on the bonds is payable monthly and no principal payments are required until the maturity date. The bonds bear interest at a variable (weekly reset) rate, which at May 31, 2010 was .28%, with an average rate of .25% for the 2010 fiscal year. In addition to the variable rate interest, the bonds incur an effective letter of credit fee of 85 basis points on the letter credit amount outstanding and a remarketing fee equal to 0.125 basis points. The bonds are secured by an irrevocable direct-pay-letter of credit to the trustee. The letter of credit expires September 14, 2011. The letter of credit is secured by certain real property and a pledge on future revenue.

CALIFORNIA LUTHERAN UNIVERSITY AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2010 and 2009

NOTE 9 - LONG-TERM DEBT (CONTINUED)

The 2004C bonds were issued to finance construction activities, refunding the Institution's outstanding Revenue Bonds 1993 Series B, advance refunding a portion of the Institution's outstanding Revenue Bonds 1998 Series A, refinancing the April 1, 2004 principal payment with respect to CEFA Revenue Bonds 1999 Series B, paying certain costs of issuance of the Series 2004C bonds, and funding a reserve fund for the Series 2004C bonds. The 2004C bonds include one serial series of bonds and three term bonds. The 2004C serial series bonds have interest rates varying from 3.00% to 4.75% and mature annually on October 1, 2010 to October 1, 2016 in amounts from \$460,000 to \$710,000. The term bonds have interest rates varying from 4.50% to 5.00% and mature from October 1, 2019 to October 1, 2029. The bonds are secured by certain real property and a pledge on future revenue.

The 2008 bonds were issued to finance construction activities and the refunding of the Institution's outstanding Revenue Bonds 2004 Series B. The 2008 bonds include one serial series bond and three term bonds. The 2008 serial series bonds have interest rates varying from 3.00% to 4.5% and mature annually on October 1, 2010 to October 1, 2016 in amounts from \$360,000 to \$460,000. The term bonds have interest rates varying from 5.25% to 5.75% and mature from October 1, 2021 to October 1, 2038. The bonds are secured by certain real property and a pledge on future revenue.

The University is required to maintain debt service reserve funds of approximately \$7,153,000, which were partially funded from bond proceeds. The bonds include certain financial covenants which require the University to maintain available assets equal to at least two times its general liabilities.

Annual maturities of long-term debt for each of the five years subsequent to May 31, 2010 approximate \$1,370,000, \$1,422,000, \$1,492,000, \$1,548,000 and \$1,615,000, respectively.

NOTE 10 - OPERATING LEASES

The University has operating leases for offsite student facilities and one vehicle. Rental expense associated with these leases totaled approximately \$496,000 and \$562,000 for the years ended May 31, 2010 and 2009, respectively.

Future minimum lease payments on leases in effect on May 31, 2010, are as follows:

Years Ended May 31,	Operating Leases
2011	\$ 567,000
2012	468,000
2013	479,000
2014	489,000
2015	431,000
Total future minimum lease payments	<u>\$ 2,434,000</u>

CALIFORNIA LUTHERAN UNIVERSITY AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS May 31, 2010 and 2009

NOTE 11 - SHORT-TERM CREDIT ARRANGEMENTS

The University has a secured revolving line of credit in the amount of \$4,000,000, with interest at the prime rate less 0.375% or LIBOR plus 2.0%, determined by the University at the time of borrowing. There was no balance outstanding as of May 31, 2010 and 2009, respectively. The revolving credit line is secured by residential real estate.

NOTE 12 - DEFERRED GIFT AGREEMENTS

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

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

The University and Foundation received \$116,319 and \$704,995 of gift value relating to deferred gift agreements for the years ended May 31, 2010 and 2009, respectively.

NOTE 13 - CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the University to concentrations of credit risk consist principally of cash, short-term investments, marketable securities and other investments, accounts, notes and mortgages receivable. Cash and cash equivalents are concentrated in a limited number of financial institutions and amounts in excess of FDIC and similar coverages are subject to the usual risks of balances in excess of those limits. Marketable securities, consisting of both debt and equity instruments, are generally placed in a variety of managed funds administered by different investment managers in order to limit credit risk. Concentrations of credit risk with respect to the notes and mortgages are limited due to the University holding a secured position in these agreements. Student notes and receivables and other receivables are due from a variety of sources concentrated primarily in the western United States. In addition, the University's students receive a substantial amount of support from state and federal student financial assistance programs which are subject to audit by governmental agencies. A significant reduction in the level of this support, if this were to occur, could have an adverse effect on the University's programs and activities. Contributions receivable for 2010 are principally due from three major contributors.

NOTE 14 - COMMITMENTS AND CONTINGENCIES

The University has commitments of approximately \$1,300,000 on various contracts for professional services related to campus construction projects. Subsequent to year end contracts were signed for commitments of approximately \$2,600,000 related to additional campus construction projects. See Note 17 for details.

CALIFORNIA LUTHERAN UNIVERSITY AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2010 and 2009

NOTE 15 - SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	2010	2009
Interest paid, net of interest capitalized of \$85,313 and \$340,191 for 2010 and 2009, respectively	\$ 3,410,695	\$ 2,740,801
Noncash investing and financing activities		
Retirement of fully depreciated assets	32,015	1,167,711
Construction in progress included in accounts payable	1,017,599	2,488,070
New bond issue		38,060,000
Debt principal paid off with bond proceeds		(3,840,000)
Debt acquisition costs paid with bond proceeds		(1,873,559)
Withdrawals of deposits with trustee		(2,291,118)
Net change in deposits with trustee		<u>\$ 30,055,323</u>

NOTE 16 - ENDOWMENT

The University's endowment consists of approximately 270 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the governing board to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the governing board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law - The University's governing board has interpreted the California enacted version of Uniform Prudent Management of Institutional Funds Act (UPMIFA) as allowing the University to appropriate for expenditure or accumulate so much of an endowment fund as the University determines is prudent for the uses, benefits, purposes and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument. Unless stated otherwise in the gift instrument, the assets in an endowment fund shall be donor-restricted assets until appropriated for expenditure by the Board of Regents. As a result of this interpretation, the University has not changed the way permanently restricted net assets are classified. See Note 1 for further information on net asset classifications.

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

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

CALIFORNIA LUTHERAN UNIVERSITY AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2010 and 2009

NOTE 16 - ENDOWMENT (CONTINUED)

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

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

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

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

Endowment net asset composition by type of fund consists of the following as of May 31, 2009:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (1,730,319)	\$ 4,083,382	\$ 26,381,957	\$ 28,735,020
Board-designated endowment funds	<u>13,029,757</u>			<u>13,029,757</u>
Total endowment net assets	<u>\$ 11,299,438</u>	<u>\$ 4,083,382</u>	<u>\$ 26,381,957</u>	<u>\$ 41,764,777</u>

CALIFORNIA LUTHERAN UNIVERSITY AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

May 31, 2010 and 2009

NOTE 16 - ENDOWMENT (CONTINUED)

Changes in endowment net assets for the year ended May 31, 2009 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, May 31, 2008	\$ 29,520,845	\$ 743,678	\$ 23,712,049	\$ 53,976,572
Net asset reclassification based on change in law	<u>(10,141,557)</u>	<u>10,141,557</u>		
Endowment net assets after reclassification:	19,379,288	10,885,235	23,712,049	53,976,572
Investment return				
Investment income, net of fees of \$139,193	813,474			813,474
Net appreciation (depreciation) - realized and unrealized	<u>(8,206,536)</u>	<u>(5,892,209)</u>		<u>(14,098,745)</u>
Total investment return	<u>(7,393,062)</u>	<u>(5,892,209)</u>		<u>(13,285,271)</u>
Contributions	1,000		1,114,481	1,115,481
Other sources	40,670		49,065	89,735
Appropriation of endowment assets for expenditure	<u>(928,330)</u>	<u>(1,505,370)</u>		<u>(2,433,700)</u>
Other changes:				
Transfers	199,872	595,726	(25,813)	769,785
Matured deferred gifts			<u>1,532,175</u>	<u>1,532,175</u>
Endowment net assets, May 31, 2009	<u>\$ 11,299,438</u>	<u>\$ 4,083,382</u>	<u>\$ 26,381,957</u>	<u>\$ 41,764,777</u>

Funds with Deficiencies - From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the University to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were approximately \$695,000 and \$1,730,000 as of May 31, 2010 and 2009, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the governing board. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets.

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

CALIFORNIA LUTHERAN UNIVERSITY AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS May 31, 2010 and 2009

NOTE 16 - ENDOWMENT (CONTINUED)

Strategies Employed for Achieving Objectives - To satisfy its long-term rate-of-return objectives, the University relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The University targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

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

NOTE 17 - SUBSEQUENT EVENTS

Subsequent to year end the University entered into two building contract agreements. The first agreement is to build a radio station building with a commitment of \$1,488,690, and the second agreement is to build an early child care center for \$1,107,430. Both the radio station and the early child care center are donor funded. In addition, the University is committed by advance funding from a donor for a board-approved project to build a new football stadium. The donor is advancing \$5 million of the \$8.9 million of estimated costs.

The University has evaluated subsequent events through September 29, 2010, which is the date that the financial statements were issued.

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INDEPENDENT AUDITORS' REPORT ON OTHER FINANCIAL INFORMATION

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

Our report on our audit of the basic financial statements of California Lutheran University for 2010 appears on page one. Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying information on page 28 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
September 29, 2010

CALIFORNIA LUTHERAN UNIVERSITY AND AFFILIATE

**CONSOLIDATED STATEMENT OF ACTIVITIES
MEASURE OF OPERATIONS
Year Ended May 31, 2010**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING				
Revenues, gains and other support				
Tuition and fees	\$ 78,825,653			\$ 78,825,653
Less: Scholarships and grants	(24,992,512)			(24,992,512)
Net tuition and fees	53,833,141			53,833,141
Government grants	1,996,117			1,996,117
Contributions	1,365,883	1,531,034		2,896,917
Long-term investment income and gains allocated for operations	618,700	1,071,208		1,689,908
Net gains (losses) on other investments	(465,654)	8,717		(456,937)
Interest and dividends	668,499			668,499
Sales and services of educational activities	993,397			993,397
Other sources	2,377,779	1,356		2,379,135
Sales and Services of auxiliary enterprises	13,784,712			13,784,712
	75,172,574	2,612,315		77,784,889
Net assets released from restrictions	4,322,956	(4,322,956)		
Transfer	173,625	(173,625)		
Total revenues, gains and other support	79,669,155	(1,884,266)		77,784,889
Expenses				
Program expenses				
Instruction	26,827,261			26,827,261
Public service	3,298,423			3,298,423
Academic support	3,691,511			3,691,511
Student services	13,461,849			13,461,849
Auxiliary enterprises	14,605,096			14,605,096
Support expenses				
Institutional support	11,987,112			11,987,112
Allocable expenses				
Operation and maintenance of plant	5,825,696			5,825,696
Depreciation and accretion	5,461,414			5,461,414
Interest	3,410,695			3,410,695
Less: Allocated expenses	(14,697,805)			(14,697,805)
Total Expenses	73,871,252			73,871,252
Change in net assets from operating activities	5,797,903	(1,884,266)		3,913,637
NONOPERATING				
Endowment income	2,862,721	2,118,632	54,829	5,036,182
Less: Long-term investment income and gains allocated for operations	(618,700)	(1,071,208)		(1,689,908)
Investment return undistributed	2,244,021	1,047,424	54,829	3,346,274
Deferred giving - gifts	53,083	63,736	2,335,134	2,451,953
Capital giving - gifts	70,788	6,035,060		6,105,848
Gains on funds held in trust by others		33,594		33,594
Adjustment to actuarial liability for annuities payable		(49,174)	65,071	15,897
Gain or loss on disposal of property, plant and equipment	(8,109)			(8,109)
Transfers	10,300	(12,583)	2,283	
Change in net assets from nonoperating activities	2,370,083	7,118,057	2,457,317	11,945,457
Change in net assets before reclassification of net assets	8,167,986	5,233,791	2,457,317	15,859,094
Reclassification of prior year net assets	(1,291,025)	918,989	372,036	
Change in Net Assets	6,876,961	6,152,780	2,829,353	15,859,094
NET ASSETS - Beginning of Year	71,206,074	13,916,979	28,952,380	114,075,433
NET ASSETS - END OF YEAR	\$ 78,083,035	\$ 20,069,759	\$ 31,781,733	\$ 129,934,527