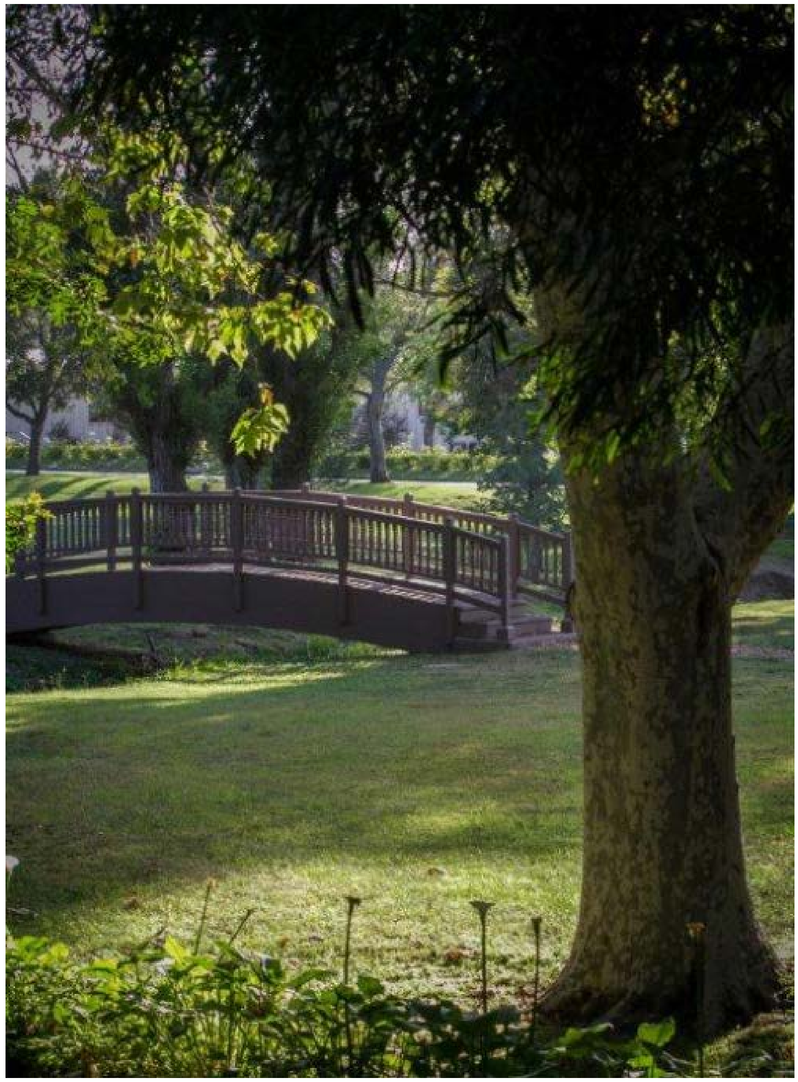

Report of Independent Auditors
and Consolidated Financial Statements for

California Lutheran University

May 31, 2013 and 2012

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REPORT OF INDEPENDENT AUDITORS

The Board of Regents
California Lutheran University and Affiliate

Report on Financial Statements

We have audited the accompanying consolidated financial statements of California Lutheran University and Affiliate, which comprise the consolidated statements of financial position as of May 31, 2013 and 2012, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

MOSS ADAMS LLP

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 Affiliate as of May 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the California Lutheran University and Affiliate's 2012 consolidated financial statements, and expressed an unmodified audit opinion on those audited financial statements in our report dated September 13, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended May 31, 2012, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Moss Adams LLP

Los Angeles, California
September 9, 2013

CALIFORNIA LUTHERAN UNIVERSITY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF MAY 31, 2013 AND 2012

ASSETS	2013	2012
Cash and cash equivalents	$ 42,234,154	$ 18,598,497
Deposits with trustees	1,455,972	12,012,698
Receivables		
Student accounts, net	1,791,698	1,592,008
Grants	188,739	165,172
Contributions	3,820,353	4,120,419
Other	1,312,789	1,191,738
Student loans receivable, net	1,530,171	1,623,193
Prepaid expenses, inventories and deposits	1,083,279	778,347
Investments		
Endowment	61,760,588	55,648,989
Deferred gifts held by University	3,226,587	3,167,377
California Lutheran Educational Foundation investments	6,075,306	6,017,531
Other	297,866	381,846
Funds held in trust by others	417,617	321,519
Deposits with trustee - reserved funds	8,121,324	11,266,205
Debt acquisition costs	1,982,899	2,071,664
Construction in progress	4,089,560	1,019,180
Property, plant, and equipment, net	122,917,827	126,211,859
Other Intangible Assets	475,000	-
TOTAL ASSETS	$ 262,781,729	$ 246,188,242

LIABILITIES AND NET ASSETS	2013	2012
LIABILITIES		
Accounts payable	$ 2,067,596	$ 952,561
Accrued liabilities	7,484,712	7,190,980
Student housing deposits	724,670	749,575
Deferred revenue	1,255,117	1,433,756
Interest rate exchange agreement liability	167,653	227,178
Annuities payable	4,941,089	4,879,648
Deposits held in trust for others	1,847,631	1,636,644
Government grants refundable	1,569,287	1,552,872
Long-term debt	71,278,750	73,585,128
TOTAL LIABILITIES	91,336,505	92,208,342
NET ASSETS		
Unrestricted	116,608,814	103,822,348
Temporarily restricted	17,651,209	14,529,069
Permanently restricted	37,185,201	35,628,483
TOTAL NET ASSETS	171,445,224	153,979,900
TOTAL LIABILITIES AND NET ASSETS	$ 262,781,729	$ 246,188,242

CALIFORNIA LUTHERAN UNIVERSITY
CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED MAY 31, 2013 WITH SUMMARIZED TOTALS FOR 2012

	2013				2012
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
OPERATING					
Revenues, gains and other support					
Tuition and fees	$ 109,952,612	$ -	$ -	$ 109,952,612	$ 99,438,404
Less: Scholarships and grants	(34,417,681)	-	-	(34,417,681)	(31,304,504)
Net tuition and fees	75,534,931	-	-	75,534,931	68,133,900
Government and grants	2,146,897	-	-	2,146,897	1,696,128
Contributions	1,936,293	1,117,567	-	3,053,860	3,245,620
Long-term investment income and gains allocated for operations	679,540	1,379,852	-	2,059,392	2,154,590
Interest and dividends	100,448	-	-	100,448	250,072
Sales and services of educational activities	944,056	-	-	944,056	1,117,356
Other sources	2,654,510	-	-	2,654,510	2,135,174
Sales and services of auxiliary enterprises	15,422,180	-	-	15,422,180	15,269,388
	99,418,855	2,497,419	-	101,916,274	94,002,228
Net assets released from restrictions	2,609,414	(2,798,601)	189,187	-	-
Reclassifications and re-designations	32,928	453,030	(485,958)	-	-
TOTAL REVENUES, GAINS AND OTHER SUPPORT	102,061,197	151,848	(296,771)	101,916,274	94,002,228
Expenses					
Program Expenses					
Instruction	34,234,489	-	-	34,234,489	32,344,538
Public service	4,140,396	-	-	4,140,396	3,706,460
Academic support	5,769,290	-	-	5,769,290	5,651,021
Student services	17,284,767	-	-	17,284,767	15,962,929
Auxiliary enterprises	16,711,660	-	-	16,711,660	16,402,034
Support Expenses					
Institutional support	13,616,153	-	-	13,616,153	13,849,127
Allocable expenses					
Operation and maintenance of plant	7,989,607	-	-	7,989,607	7,218,088
Depreciation	6,634,137	-	-	6,634,137	6,530,014
Interest	3,571,395	-	-	3,571,395	3,530,215
Less: Allocated expenses	(18,195,139)	-	-	(18,195,139)	(17,278,317)
TOTAL OPERATING EXPENSES	91,756,755	-	-	91,756,755	87,916,109
Change in net assets from operating activities	10,304,442	151,848	(296,771)	10,159,519	6,086,119
NON-OPERATING					
Endowment (loss) income	1,737,140	4,600,531	-	6,337,671	(924,328)
Less: Long-term investment income and gains allocated for operations	(679,540)	(1,379,852)	-	(2,059,392)	(2,154,590)
Investment return distributed	1,057,600	3,220,679	-	4,278,279	(3,078,918)
Net gains (losses) on other investments	(3,706)	6,896	-	3,190	(175,803)
Net gain (loss) on CEFA bond reserve	(249,801)	-	-	(249,801)	707,065
Unrealized loss on interest rate exchange agreement	59,525	-	-	59,525	(86,586)
Deferred giving - gifts	3,247	319,410	1,574,307	1,896,964	877,375
Capital giving - gifts	(23,710)	1,291,432	-	1,267,722	3,215,763
Gains (losses) on funds held in trust by others	1,948	-	95,937	97,885	(28,632)
Adjustment to actuarial liability for annuities payable	(77,710)	202,525	183,245	308,060	(236,955)
Loss on disposal of property, plant and equipment	(356,019)	-	-	(356,019)	(47,755)
Net assets released from restrictions - nonoperating	2,070,650	(2,070,650)	-	-	-
Change in net assets from nonoperating activities	2,482,024	2,970,292	1,853,489	7,305,805	1,145,554
CHANGE IN NET ASSETS	12,786,466	3,122,140	1,556,718	17,465,324	7,231,673
NET ASSETS, beginning of year	103,822,348	14,529,069	35,628,483	153,979,900	146,748,227
NET ASSETS, end of year	$ 116,608,814	$ 17,651,209	$ 37,185,201	$ 171,445,224	$ 153,979,900

See accompanying notes.

CALIFORNIA LUTHERAN UNIVERSITY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED MAY 31, 2013 AND 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 17,465,324	$ 7,231,673
Adjustments to reconcile change in net assets to net cash provided from operating activities:		
Interest earned on deposits with Trustee	(103,451)	(132,213)
Depreciation, amortization, and accretion	6,722,902	6,618,779
(Gain) loss on investments, net	(6,340,861)	1,100,131
Unrealized (gain) loss on CEFA bond proceeds	249,801	(707,065)
Change in allowance for doubtful accounts	77,006	(41,191)
Change in interest rate exchange agreement liability	(59,525)	86,586
Actuarial adjustment of annuities payable	(308,060)	236,955
Loan cancellations and write-offs	21,437	34,850
Loss on disposal of assets	356,019	47,755
(Gain) loss on funds held in trust by others	(96,097)	48,005
Changes in current assets and liabilities:		
Student accounts receivable	(276,696)	337,876
Grants receivable	(23,568)	98,391
Contributions receivable	300,066	1,689,117
Other receivables	(121,050)	69,098
Prepaid expenses, inventories and deposits	(304,933)	462,031
Accounts payable	373,509	372,169
Accrued liabilities	293,733	37,519
Student housing deposits	(24,905)	(174,521)
Deferred revenue	(178,639)	(256,562)
Deposits held in trust for others	16,722	400,235
Contributions restricted for plant, loans, and long-term investment	(3,164,687)	(4,093,138)
NET CASH FLOWS FROM OPERATING ACTIVITIES	14,874,047	13,466,480
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(5,704,328)	(29,492,396)
Sales of investments	6,727,789	30,332,046
Deposits from trustee accounts	13,555,257	1,377,415
Purchases of property, plant, and equipment, and CIP	(6,499,979)	(11,345,602)
Disbursements of loans to students	(130,000)	(154,000)
Repayments of loans from students	201,583	155,131
NET CASH USED IN INVESTING ACTIVITIES	8,150,322	(9,127,406)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of principal on indebtedness	(2,306,378)	(1,620,301)
Increase (decrease) in refundable governmental grants, net	16,415	(630)
Payments to annuitants	(686,159)	(1,174,907)
Increase in annuities payable from new gifts	422,723	713,506
Contributions received restricted for plant, loans and long-term investment	3,164,687	4,093,138
NET CASH FROM FINANCING ACTIVITIES	611,288	2,010,806
NET INCREASE IN CASH AND CASH EQUIVALENTS	23,635,657	6,349,880
CASH AND CASH EQUIVALANTS, beginning of year	18,598,497	12,248,617
CASH AND CASH EQUIVALENTS, end of year	$ 42,234,154	$ 18,598,497

Note 1 - Organization

California Lutheran University ("CLU") is an institution of higher education affiliated with the Evangelical Lutheran Church in America. CLU offers undergraduate and graduate degrees in the liberal arts and sciences and professional fields.

California Lutheran Educational Foundation (the "Foundation") is a private foundation whose primary function is to provide fundraising support for California Lutheran University.

KCLU-FM California Lutheran University (the "Station") is a noncommercial radio station owned and operated by CLU. The accounts and reports of the Station are a part of the University's general accounting system and have been identified and segregated from the books of the University. 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.

Principles of consolidation - The consolidated financial statements include the accounts of California Lutheran University and California Lutheran Educational Foundation (collectively referred to as the "University"). All significant intercompany balances and transactions have been eliminated in consolidation.

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation - These consolidated 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 consolidated financial statements in the categories that follow:

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they would 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.

The 2013 consolidated statement of activities is presented with 2012 summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with Generally Accepted Accounting Principles ("GAAP"). Accordingly, such information should be read in conjunction with the University's consolidated financial statements for the year ended May 31, 2012, from which the summarized information was derived.

Note 2 - Summary of Significant Accounting Policies (continued)

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. 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. 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.

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.

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

Note 2 - Summary of Significant Accounting Policies (continued)

Student accounts receivable - 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. Student accounts are written off when deemed uncollectible. Recoveries of student accounts previously written off are recorded when received. A student account receivable is considered to be delinquent if any portion of the balance is outstanding for more than 90 days after the billing date. Interest is 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 trusteed bond reserves. Revenue from such sale had been deferred and recognized as income as 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 approximately $89,000 was recorded for the years ended May 31, 2013 and 2012.

Property and equipment - Physical property assets are stated at cost (or at fair value if donated), 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). Normal repair and maintenance expenses are charged to operations as incurred. The University capitalizes physical property 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 $767,845 and $721,247 at May 31, 2013 and 2012, respectively, is included in accrued liabilities on the consolidated statements of financial position. The asset retirement obligation was reduced in 2012 due to remediation of two buildings on campus. Therefore, there was no accretion expense for the year ending May 31, 2012. The accretion expense for the year ending May 31, 2013 was $46,598.

Government grants refundable - Funds provided by the United States Government under the Federal Perkins Loan Program are loaned to qualified students and may be re-loaned after collections. These funds are ultimately refundable to the government and are included as liabilities in the consolidated 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.

Note 2 - Summary of Significant Accounting Policies (continued)

Deferred revenue - The University has deferred revenue/advances from prepayments on student accounts and from vendors related to its bookstore and food service operations.

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

Retirement plans - The University has certain contributory retirement 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 $3,206,000 and $2,993,000 for the years ended May 31, 2013 and 2012, respectively.

Fundraising and advertising expenses - Fundraising expenses approximated $2,166,000 and $2,280,000 for the years ended May 31, 2013 and 2012, respectively. Advertising costs approximated $759,000 and $859,000 for the years ended May 31, 2013 and 2012, respectively, and are expensed as incurred.

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

Use of estimates - The preparation of the consolidated 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 amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

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. It is also exempt from state income taxes. However, any unrelated business income may be subject to taxation.

The University follows the accounting standards for contingencies in evaluating uncertain tax positions. This guidance prescribes recognition threshold principles for the consolidated financial statements recognition of tax positions taken or expected to be taken on a tax return that are not certain to be realized. No liability has been recognized by the University for uncertain tax positions as of May 31, 2013. The University's tax returns are subject to review and examination by federal and state authorities. The tax returns for the current year as well as fiscal years 2010 to 2012 are open to examination by federal and state authorities.

Note 2 - Summary of Significant Accounting Policies (continued)

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 2012 consolidated financial statements have been reclassified to conform with the 2013 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.

Investments and investment income - Investments are measured at fair value in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification Topic 820, *Fair Value Measurements and Disclosures* in the consolidated statements of financial position (see Note 3). Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in non-operating unrestricted revenues, gains and other support unless the income or loss is restricted by donor or law.

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 considered to approximate fair value and is included in investments.

The fair values for investments and other financial instruments recorded at fair value on a recurring basis are included in Note 3.

Note 3 - Fair Value Measurements

Accounting Standards Codification ("ASC") 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. 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 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

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.

Note 3 - 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, 2013:

	2013			
	Total	Level 1	Level 2	Level 3
ASSETS				
Deposits with trustee				
Cash and short term investments	$ 3,194,132	$ 3,194,132	$ -	$ -
Government bonds	6,383,163	6,383,163	-	-
Funds held in trust by others	417,617	-	-	417,617
Total funds held by others	9,994,912	9,577,295	-	417,617
Investments				
Cash equivalents and short term investments	5,563,586	3,200,910	2,362,676	-
Equity securities funds - U.S.	16,584,461	2,490,343	14,094,118	-
Equity securities funds - Non-U.S.	11,773,700	7,014,581	4,759,119	-
Total equity securities	28,358,161	9,504,924	18,853,237	-
Comingled funds - U.S.	16,785,932	2,885,371	13,900,561	-
Comingled funds - Non-U.S.	10,667,506	10,667,506	-	-
Corporate bonds	1,972,509	1,972,509	-	-
Government bonds	2,052,875	2,052,875	-	-
Total fixed income	31,478,822	17,578,261	13,900,561	-
Commodities and other investments	1,362,146	182,551	1,157,098	22,497
Hedge funds	24,132	-	-	24,132
Partnerships				
Private equity	3,243,653	-	-	3,243,653
Venture capital	881,688	-	-	881,688
Real estate	448,159	-	-	448,159
Total partnerships	4,573,500	-	-	4,573,500
Total investments	71,360,347	30,466,646	36,273,572	4,620,129
TOTAL ASSETS	$ 81,355,259	$ 40,043,941	$ 36,273,572	$ 5,037,746
LIABILITIES				
Interest rate exchange agreement	$ 167,653	$ -	$ 167,653	$ -
Deposits held in trust for others	417,024	417,024	-	-
TOTAL LIABILITIES	$ 584,677	$ 417,024	$ 167,653	$ -

Note 3 - 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, 2012:

	2012			
	Total	Level 1	Level 2	Level 3
ASSETS				
Deposits with trustee				
Cash and short term investments	$ 17,451,022	$ 17,451,022	$ -	$ -
Government bonds	5,827,881	5,827,881	-	-
Funds held in trust by others	321,519	-	-	321,519
Total funds held by others	23,600,422	23,278,903	-	321,519
Investments				
Cash equivalents and short term investments	6,403,231	3,677,309	2,725,922	-
Equity securities funds - U.S.	13,978,937	2,320,865	11,658,072	-
Equity securities funds - Non-U.S.	9,609,431	5,818,284	3,791,147	-
Total equity securities	23,588,368	8,139,149	15,449,219	-
Comingled funds - U.S.	16,474,181	2,799,310	13,674,871	-
Comingled funds - Non-U.S.	9,796,935	9,796,935	-	-
Corporate bonds	1,137,950	1,137,950	-	-
Government bonds	1,962,048	1,962,048	-	-
Total fixed income	29,371,114	15,696,243	13,674,871	-
Commodities and other investments	1,053,305	182,562	849,938	20,805
Hedge funds	52,776	-	-	52,776
Partnerships				
Private equity	3,256,187	-	-	3,256,187
Venture capital	867,022	-	-	867,022
Real estate	623,740	-	-	623,740
Total partnerships	4,746,949	-	-	4,746,949
Total investments	65,215,743	27,695,263	32,699,950	4,820,530
TOTAL ASSETS	$ 88,816,165	$ 50,974,166	$ 32,699,950	$ 5,142,049
LIABILITIES				
Interest rate exchange agreement	$ 227,178	$ -	$ 227,178	$ -
Deposits held in trust for others	321,519	321,519	-	-
TOTAL LIABILITIES	$ 548,697	$ 321,519	$ 227,178	$ -

The following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying consolidated statements of financial position, as well as general classification of such instruments pursuant to the valuation hierarchy.

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include highly liquid fixed-income securities, inflation protected equity funds, and emerging and developed market equity funds. Level 2 securities include any highly liquid funds not traded in an active market. In addition, fixed income funds and certain equity funds in Level 2, while lacking in liquidity, are readily priced based on net asset values ("NAV") of the funds, or its equivalent fair value based on ownership percentages in the limited partnerships as of and for the fiscal years ended May 31, 2013 and 2012. In certain cases where Level 1 or Level 2 inputs are not available, or redemption is restricted for greater than 90 days, securities are classified within Level 3 of the hierarchy.

Note 3 - Fair Value Measurements (continued)

Securities classified within Level 3 investments are based on valuations provided by the external investment managers. The Investment Committee and Management, in conjunction with the external investment advisors, monitors and analyzes the valuation of the investments on a quarterly basis. The Investment Committee reports to the Board of Trustees. The valuations consider variables such as financial performance of investments, recent sales prices of investments, and other pertinent information. All investment objectives and strategies used by the fund managers comply with the University's Investment Policy.

The University's beneficial interest in irrevocable split interest agreements held or controlled by a third party is 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 trust's assets. The fair values are based on the market values of the trust assets.

The interest rate exchange agreement is classified as Level 2 as the fair value is based on observable inputs to a valuation model (interest rates, credit spreads, etc.) which take into account the present value of the estimated future cash flows and credit valuation adjustments.

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.

The following paragraph presents information about the level in the fair value hierarchy for the University's assets and liabilities that are not reported at fair value as of May 31, 2013 and 2012. Most financial assets and financial liabilities for which the carrying amount equals fair value are considered by the University to be Level 1 measurements in the fair value hierarchy. The University issued CEFA bonds that are reported at an amortized cost of $71,278,750 and $73,585,128 as of May 31, 2013 and 2012, respectively, in the statement of financial position. These CEFA bonds have an approximate fair value of $71,971,466 and $72,414,857 as of May 31, 2013 and 2012, respectively. The University determined these CEFA bonds to be Level 2 measurements in the fair value hierarchy.

Note 3 - Fair Value Measurements (continued)

The following table presents a reconciliation of the consolidated statements of financial position amounts for financial instruments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended May 31, 2013 and 2012:

	Partnerships					Funds Held	
	Private Equity	Venture Capital	Real Estate	Hedge Funds	Commodities and Other	in Trust by Others	Total
Balance at June 1, 2012	$ 3,256,187	$ 867,022	$ 623,740	$ 52,776	$ 20,805	$ 321,519	$ 5,142,049
Total realized gain (loss)	283,541	-	-	(227)	-	116,098	399,412
Total unrealized gain (loss)	(508,300)	(46,492)	(20,481)	3,082	1,692	-	(570,499)
Purchases	610,000	84,375	-	-	-	-	694,375
Sales	(397,775)	(23,217)	(155,100)	(31,499)	-	(20,000)	(627,591)
Balance at May 31, 2013	$ 3,243,653	$ 881,688	$ 448,159	$ 24,132	$ 22,497	$ 417,617	$ 5,037,746
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, 2013							$ (574,197)

	Partnerships					Funds Held	
	Private Equity	Venture Capital	Real Estate	Hedge Funds	Commodities and Other	in Trust by Others	Total
Balance at June 1, 2011	$ 2,810,853	$ 702,245	$ 738,913	$ 1,132,362	$ 19,700	$ 369,524	$ 5,773,597
Total realized gain (loss)	124,246	11,244	-	(40,702)	-	(28,005)	66,783
Total unrealized gain (loss)	205,225	45,079	43,977	(30,826)	1,105	-	264,560
Purchases	1,657,253	145,245	-	400,000	-	-	2,202,498
Sales	(1,541,390)	(36,791)	(159,150)	(1,408,058)	-	(20,000)	(3,165,389)
Balance at May 31, 2012	$ 3,256,187	$ 867,022	$ 623,740	$ 52,776	$ 20,805	$ 321,519	$ 5,142,049
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, 2012							$ 291,824

The University's policy is to recognize transfers in and transfers out as of the last day of the reporting period.

Note 3 - Fair Value Measurements (continued)

The following table lists investments valued at NAV by major class:

	Fair Value at May 31, 2013	Unfunded Commitments	Redemption Frequency	Redemption Notice Period	Investee Strategies and Other Restrictions
Hedge Funds	$ 24,132	$ -	Quarterly	45-60 days	[1]
Equity Securities Funds - U.S.	14,094,118	-	Daily/Monthly	2-5 days	[1]
Equity Securities Funds - Non U.S.	4,759,119	-	Daily/Monthly	2-5 days	[1]
U.S. Comingled Funds	13,900,561	-	Daily/Monthly	2-5 days	[1]
Commodities and Other	1,179,595	-	Daily/Monthly	2-5 days	[1]
Partnerships					
Private Equity	3,243,653	1,773,000	Not permitted	n/a	[2]
Venture Capital	881,688	164,000	Not permitted	n/a	[2]
Real Estate	448,159	55,000	Not permitted	n/a	[2]
Balance at May 31, 2013	$ 38,531,025	$ 1,992,000			

[1] Absolute total return in long/short equity and multi-strategy hedge funds.
[2] Venture and buyout, in the U.S. and international.

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 regularly review performance reports provided by the general partners of these investments. 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 consolidated financial statements.

Note 4 - Credit Quality of Student Loans Receivable

The University issues uncollateralized loans to students based on financial need. Student loans are funded through Federal government loan programs or institutional resources. Student loans receivable are carried at the amount of unpaid principal less an estimate for doubtful accounts. 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. At May 31, 2013 and 2012, student loans represented 0.59% and 0.66% of total assets, respectively.

	2013	2012
Federal government programs	$ 1,608,179	$ 1,699,395
Institutional programs	6,992	8,798
	1,615,171	1,708,193
Less allowance for doubtful accounts	(85,000)	(85,000)
Student loans receivable, net	$ 1,530,171	$ 1,623,193

Funds advanced by the Federal government of approximately $1,600,000 at May 31, 2013 and 2012 are ultimately refundable to the government and are classified as liabilities in the consolidated statements of financial position.

After a student is no longer enrolled in an institution of higher education and after a grace period, interest is charged on student loans receivable and is recognized as it is charged. Student loans receivable through the loan programs are considered to be past due if a payment is not made within 30 days of the payment due date, at which time, late charges are charged and recognized. The Federal Perkins Loan Program receivables may be assigned to the U.S. Department of Education. Students may be granted a deferment, forbearance, or cancellation of their student loan receivable based on eligibility requirements defined by the U.S. Department of Education.

At May 31, the following amounts were past due under student loan programs:

May 31,	1-30 days	31-60 days	61-90 days	91+ days	Total
2013	$ 21,996	$ 32,610	$ 2,059	$ 106,727	$ 163,392
2012	$ 34,199	$ 79,961	$ 39,893	$ 64,794	$ 218,847

Note 5 - Contributions Receivable

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

	2013	2012
Temporarily restricted - plant projects	$ 4,128,606	$ 4,576,133
Less: Present value discount	(308,253)	(455,714)
Contributions Receivable, net	$ 3,820,353	$ 4,120,419

Amounts due in:	
Less than one year	$ 1,949,203
One to five years	1,871,150
	$ 3,820,353

Gross unconditional promises to give have been reduced by an allowance for unfulfilled pledges of $102,719 and $120,848 at May 31, 2013 and 2012, respectively. An interest rate of 5% was used at May 31, 2013 and 2012 to discount net unconditional promises to give.

Approximately $1,600,000 and $2,100,000 of the contributions receivable at May 31, 2013 and 2012, respectively, are due from members of the governing board of the University.

Note 6 - Construction in Progress

At May 31, 2013, the following major projects were in progress:

	Estimated Total Cost	Cost to Date	Funding Plan
New dining commons	$ 15,000,000	$ 3,994,955	Donations/operations
Other projects		94,605	Operations
		$ 4,089,560	

At May 31, 2012, the following major projects were in progress:

	Estimated Total Cost	Cost to Date	Funding Plan
New dining commons	$ 15,000,000	$ 771,000	Donations/operations
Other projects		248,000	Operations
		$ 1,019,000	

Note 7 - Property and Equipment

Property and equipment consist of the following at May 31:

	2013	2012
Land	$ 1,096,660	$ 946,660
Improvements other than buildings	30,775,629	36,601,088
Buildings	132,322,027	130,641,816
Equipment	8,256,133	12,792,292
Library books or materials	3,771,360	3,621,584
	176,221,808	184,603,440
Less: Accumulated depreciation	(53,303,981)	(58,391,581)
Property and equipment, net	$ 122,917,827	$ 126,211,859

Depreciation expense totaled $6,636,432 and $6,530,014 for the years ended May 31, 2013 and 2012, respectively.

Note 8 - Restrictions and Limitations on Net Asset Balances

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

	2013	2012
Endowment funds	$ 35,091,890	$ 33,302,302
Funds held in trust by others	364,126	$ 268,189
Student loan funds	304,278	304,278
Annuity, life income and similar funds	1,424,907	1,753,714
	$ 37,185,201	$ 35,628,483

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

	2013	2012
Gifts and other unexpended revenues and gains available for:		
Scholarships, instruction and other departmental support	$ 3,389,148	$ 3,302,336
Acquisition of buildings and equipment	2,226,425	2,994,194
Endowment funds	10,650,826	7,082,263
Term endowment fund	-	48,573
	16,266,399	13,427,366
Annuity, life income and similar funds	1,384,810	1,101,703
	$ 17,651,209	$ 14,529,069

Note 8 - Restrictions and Limitations on Net Asset Balances

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

	2013	2012
Operations	$ 42,621,189	$ 28,877,892
Endowment funds	15,684,477	14,852,675
Funds held in trust by others	53,491	53,330
Property	58,129,177	59,824,948
Annuity, life income and similar funds	120,480	213,503
	$ 116,608,814	$ 103,822,348

Note 9 - Net Assets Released from Restrictions

Net assets were released from temporary donor restrictions during the years ended May 31, 2013 and 2012 by incurring expenses satisfying the restricted purposes or by occurrence of events specified by the donors as follows:

	2013	2012
Scholarships, instruction and other departmental support	$ 2,602,243	$ 2,230,931
Acquisition of buildings and equipment	2,267,009	4,093,227
	$ 4,869,252	$ 6,324,158

Note 10 - Long-Term Debt

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

	2013	2012
Notes payable	$ 3,018,750	$ 4,220,128
California Educational Facilities Authority (CEFA)		
Revenue Bonds		
1999 Series	1,665,000	1,775,000
2004 Series A	5,465,000	5,465,000
2004 Series C	24,195,000	24,795,000
2008 Series	36,935,000	37,330,000
	$ 71,278,750	$ 73,585,128

Note 10 - Long-Term Debt (continued)

The University has a bank note outstanding secured by 14 individual homes totaling $3,018,750 and $4,220,128 at May 31, 2013 and 2012, respectively, which matures through February 1, 2019. The required monthly payment ranges between $48,000 and $50,000. The University entered into an interest rate exchange agreement related to this note to fix the interest rate at 4.18% (see Note 17).

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 5.125% to 5.25% and mature annually on April 1, 2014 through April 1, 2024 in amounts from $115, 000 to $195,000. The CEFA 99 indenture is secured by real property.

The 2004 Series A bonds were issued to finance the cost of the construction and equipping of certain educational facilities and paying certain costs of issuance of the 2004 Series A bonds. The bonds were issued November 16, 2004 and will mature on 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, 2013 was 0.14%, with an average rate of 0.17% for the 2013 fiscal year. In addition to the variable rate interest, the bonds incur an annual effective letter of credit fee of 130 basis points on the letter credit amount outstanding and an annual remarketing fee equal to 0.125%. The bonds are secured by an irrevocable direct-pay-letter of credit to the trustee. The letter of credit expires September 14, 2014. The letter of credit is secured by certain real property and a pledge on future revenue.

The 2004 Series C bonds were issued to finance construction activities, refunding the University's outstanding Revenue Bonds 1993 Series B, advance refunding a portion of the University'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 2004 Series C bonds, and funding a reserve fund for the 2004 Series C bonds. The 2004 Series C bonds include one serial series of bonds and three term bonds. The 2004 Series C bonds have interest rates varying from 3.625% to 4.75% and mature annually on October 1, 2013 to October 1, 2016 in amounts from $625,000 to $710,000. The term bonds have interest rates varying from 4.50% to 5.00% and mature from October 1, 2017 to October 1, 2029 in amounts from $745,000 to $2,545,000. The bonds are secured by certain real property and a pledge on future revenue.

Note 10 - Long-Term Debt (continued)

The 2008 Series bonds were issued to finance construction activities and the refunding of the University's outstanding Revenue Bonds 2004 Series B. The 2008 Series bonds include one serial series bond and three term bonds. The 2008 serial series bonds have interest rates varying from 3.50% to 4.50% and mature annually on October 1, 2013 to October 1, 2016 in amounts from $400,000 to $460,000. The term bonds have interest rates varying from 5.25% to 5.75% and mature from October 1, 2017 to October 1, 2038 in amounts from $480,000 to $3,650,000. 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 $6,603,000 which were partially funded from bond proceeds. The bond agreements require that certain financial and other covenants be maintained. As of May 31, 2013, the University is in compliance with these covenants.

Annual maturities of long-term debt for each of the five years subsequent to May 31, 2013 approximate $1,665,000, $1,710,000, $1,770,000, $1,830,000, and $1,890,000, respectively, and approximately $62,414,000 thereafter.

Note 11 - Operating Leases

The University has operating leases for offsite student facilities and one vehicle. Rental expense associated with these leases totaled approximately $833,000 and $873,000 for the years ended May 31, 2013 and 2012, respectively.

Future minimum lease payments on leases in effect on May 31, 2013, are as follows:

	Operating Leases
Years Ended May 31,	
2014	$ 811,300
2015	760,378
2016	660,671
2017	469,369
2018	417,720
Thereafter	176,188
	$ 3,295,626

Note 12 - Short-Term Credit Arrangements

The University has a secured revolving line of credit in the amount of $4,000,000, with interest at either the LIBOR interest rate plus 1.50% per year or the prime rate minus 0.375% determined by the University at the time of borrowing. There was no balance outstanding as of May 31, 2013 and 2012. The revolving credit line is secured by residential real estate.

Note 13 - Deferred Gift Agreements

The University has 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 beneficiary and/or successor beneficiary 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 received $218,159 and $297,554 of gift value relating to deferred gift agreements for the years ended May 31, 2013 and 2012, respectively. The gift value relating to deferred gift agreements are recorded in deferred gifts held by University and the related liability is recorded to annuities payable on the statement of financial position.

Note 14 - Other Concentrations of Credit Risk

Financial instruments that potentially subject the University to concentrations of credit risk consist principally of cash, investments, and accounts receivable. Cash, cash equivalents and investments 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.

Student notes and receivables and other receivables are due from a variety of sources concentrated primarily in the western United States.

Note 14 - Other Concentrations of Credit Risk (continued)

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 as of May 31, 2013 are principally due from two major contributors.

Note 15 - Supplemental Disclosure of Cash Flow Information

	2013	2012
Interest paid, net of interest capitalized of $ 81,592 and $105,369 for 2013 and 2012, respectively	$ 3,571,395	$ 3,530,215
Noncash investing and financing activities		
Retirement of fully depreciated assets	11,721,737	116,546
Construction in progress included in accounts payable	853,311	111,785

Note 16 - Endowment

The University's endowment consists of approximately 300 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. See Note 2 for further information on net asset classifications.

Note 16 - Endowment (continued)

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

Endowment net asset composition by type of fund consists of the following as of May 31, 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (3,648)	$ 10,100,557	$ 35,091,890	$ 45,188,799
Board-designated endowment funds*	15,688,125	550,269	-	16,238,394
Total endowment net assets	$ 15,684,477	$ 10,650,826	$ 35,091,890	$ 61,427,193

*Amounts shown as temporarily restricted Board-designated have a donor-restriction as to purpose but are not donor-endowed.

Note 16 - Endowment (continued)

Changes in endowment net assets for the year ended May 31, 2013 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, May 31, 2012	$ 14,852,675	$ 7,130,836	$ 33,302,302	$ 55,285,813
Investment return				
Investment income, net of fees of $260,923	200,315	529,269	-	729,584
Net appreciation - realized and unrealized	1,536,825	4,071,262	-	5,608,087
Total investment return	1,737,140	4,600,531	-	6,337,671
Contributions	500	226,025	1,452,281	1,678,806
Changes in cash surrender values	18,060	16,607	115,097	149,764
Appropriation of endowment assets for expenditure	(679,540)	(1,379,852)	-	- (2,059,392)
Other changes:				-
Transfers	(244,358)	56,679	222,210	34,531
Endowment net assets, May 31, 2013	$ 15,684,477	$ 10,650,826	$ 35,091,890	$ 61,427,193

Endowment net asset composition by type of fund consists of the following as of May 31, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (134,142)	$ 7,036,541	$ 33,302,302	$ 40,204,701
Board-designated endowment funds*	14,986,817	94,295	-	15,081,112
Total endowment net assets	$ 14,852,675	$ 7,130,836	$ 33,302,302	$ 55,285,813

*Amounts shown as temporarily restricted Board-designated have a donor-restriction as to purpose but are not donor-endowed.

Note 16 - Endowment (continued)

Changes in endowment net assets for the year ended May 31, 2012 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, May 31, 2011	$ 16,390,579	$ 10,390,300	$ 30,531,839	$ 57,312,718
Investment return				
Investment income, net of fees of $304,084	296,591	631,928	-	928,519
Net depreciation - realized and unrealized	(652,912)	(1,901,025)	-	(2,553,937)
Total investment return	(356,321)	(1,269,097)	-	(1,625,418)
Contributions	-	40	579,783	579,823
Changes in cash surrender values	(190,152)	6,858	158,466	(24,828)
Appropriation of endowment assets for				-
expenditure	(662,180)	(1,492,410)	-	(2,154,590)
Other changes:				-
Reclassification	(363,101)	(833,495)	1,196,596	-
Transfers	33,850	328,640	835,618	1,198,108
Endowment net assets, May 31, 2012	$ 14,852,675	$ 7,130,836	$ 33,302,302	$ 55,285,813

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 $4,000 and $134,000 as of May 31, 2013 and 2012, 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 were 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.

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 5.00% of its endowment fund's average fair value for the twelve quarters prior to and including December 31 preceding the fiscal year-end. 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 4.00% 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 - Derivative Instruments

The University uses an interest rate exchange agreement as part of its risk management strategy to manage exposure to fluctuations in interest rates and to manage the overall cost of its debt. Interest rate exchange agreements are used to manage identified and approved exposures and are not used for speculative purposes. The interest rate exchange agreement is recognized as either an asset or liability on the consolidated statements of financial position and is measured at fair value. Interest rate exchange agreements are often held for the life of the strategy, but may reflect significant interim unrealized gains or losses depending on the change in value since the inception of the contract. All unrealized and realized gain or loss from the interest rate exchange agreement is reflected in the consolidated statements of activities.

The University entered into an interest rate exchange agreement during 2011. The interest rate exchange agreement has an original notional amount of $4,200,000. The agreement fixes the University’s one month LIBOR interest rate at 4.18% through the February 1, 2019 expiration date.

Note 17 - Derivative Instruments (continued)

The interest rate exchange agreement between the University and a third party ("counterparty") provides for periodic exchange of payments between the parties based on changes in a defined index and a fixed rate and include counterparty credit risk. Counterparty credit risk is the risk that contractual obligations of the counterparties will not be fulfilled. Concentrations of credit risk relate to groups of counterparties that have similar economic or industry characteristics that could cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. Counterparty credit risk is managed by requiring high credit standards for the University's counterparties. The counterparties to these contracts are financial institutions that carry investment-grade credit ratings. The interest rate exchange agreement contains collateral provisions applicable to both parties to mitigate credit risk. The University does not anticipate non-performance by its counterparty.

Derivative instruments are reported in the consolidated statements of financial position at fair value as of May 31, 2013 and 2012 as follows:

	Liabilities Derivative		
Derivates Not Designated as Hedging Instruments	Statement of Financial Position Location	Fair Value	
		2013	2012
Interest exchange agreement	Interest rate exchange agreement liability	$ 167,653	$ 227,178

Derivates Not Designated as Hedging Instruments	Location of Loss on Derivates Recognized in the Statement of Changes in Net Assets	Amount of Loss on Derivatives Recognized in the Statement of Changes in Net Assets	
		2013	2012
Interest exchange agreement	Unrealized Gain/(loss) on interest rate exchange agreement	$ 59,525	$ (86,586)

Note 18 - Subsequent Events

ASC 855, Subsequent Events, establishes financial general standards of accounting for and disclosure of events that occur after the statement of position date but before financial statements are issued. The University has evaluated subsequent events through September 9, 2013,, which is the date the financial statements were 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 does not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position but arose after the statement of financial position date and before the financial statements are available to be issued, other than the following event:

Note 18 - Subsequent Events (continued)

On August 23, 2013, the Board of Regents of California Lutheran University approved a merger that would result in Pacific Lutheran Theological Seminary ("PLTS") in Berkeley, California becoming part of CLU. CLU and PLTS are both schools of the Evangelical Lutheran Church in America ("ELCA") with complementary missions. PLTS, the only ELCA seminary in the western United States, offers master's degrees in divinity and theological studies and is a member of the Graduate Theological Union, a consortium of seminaries and research centers that offers combined programs. PLTS has about 80 degree seeking students.

The merger is contingent upon obtaining approval from all the governing bodies and the Western Association of Schools & Colleges Commission. In October 2013, CLU's faculty will consider endorsement of the seminary's academic program and the university's Convocation will vote on support for the merger. The last step of the process will be the final approval of the Western Association of Schools & Colleges Commission, which is expected in November 2013. The PLTS Board of Directors and the ELCA Church Council have already approved the merger. The merger effective date is anticipated to be January 1, 2014.