



UNIVERSITY OF THE PACIFIC



Financial Statements

June 30, 2022

(with summarized comparative financial information for the year ended June 30, 2021)

(With Independent Auditors' Report Thereon)



UNIVERSITY OF THE PACIFIC

Table of Contents

	Page(s)
Independent Auditors' Report	1-2
Financial Statements:	
Balance Sheet	3
Statement of Activities	4
Statement of Cash Flows	5
Notes to Financial Statements	6-28
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	29-30



KPMG LLP
500 Capitol Mall, Ste 2100
Sacramento, CA 95814-4754

Independent Auditors' Report

The Board of Regents
University of the Pacific:

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the University of the Pacific (the University), which comprise the statement of financial position as of June 30, 2022, and the related statement of activities and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the University as of June 30, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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



In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

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

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

Report on Summarized Comparative Information

We have previously audited the University's 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 10, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2021 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 3, 2022, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

KPMG LLP

Sacramento, California
November 3, 2022

UNIVERSITY OF THE PACIFIC

Balance Sheet

June 30, 2022

(with comparative financial information
as of June 30, 2021)

(In thousands)

Assets	2022	2021
Cash and cash equivalents	\$ 28,445	23,774
Accounts receivable, net	14,056	17,355
Pledges receivable, net	17,590	8,843
Inventories, prepaid expenses, and other assets	7,583	11,481
Student loans receivable, net	18,877	21,340
Investments	826,989	880,789
Fixed assets, net	<u>361,697</u>	<u>367,953</u>
Total assets	\$ <u><u>1,275,237</u></u>	<u><u>1,331,535</u></u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities	\$ 27,802	28,960
Advance deposits and deferred revenue	25,824	19,870
Self-insurance and early retirement obligations	12,587	12,183
Lease obligations	2,381	4,410
Asset retirement obligation	8,873	8,739
Notes and bonds payable	141,552	150,705
Trust and annuity obligations	7,724	10,346
Federal student loan funds	<u>20,003</u>	<u>22,088</u>
Total liabilities	<u>246,746</u>	<u>257,301</u>
Net assets:		
Without donor restrictions	425,111	431,205
With donor restrictions	<u>603,380</u>	<u>643,029</u>
Total net assets	<u>1,028,491</u>	<u>1,074,234</u>
Total liabilities and net assets	\$ <u><u>1,275,237</u></u>	<u><u>1,331,535</u></u>

See accompanying notes to financial statements.

UNIVERSITY OF THE PACIFIC

Statement of Activities

June 30, 2022

(with summarized financial information
as of June 30, 2021)

(In thousands)

	2022		Total	2021 Total
	Without donor restrictions	With donor restrictions		
Revenues, gains, and other support:				
Tuition and student fees				
(Includes student financial aid of \$111,009 and \$109,088 in 2022 and 2021, respectively)	229,656	—	229,656	237,776
Sales and services of auxiliary enterprises	28,779	—	28,779	6,663
Government grants and contracts	17,891	—	17,891	27,612
Private grants, gifts, and bequests	11,720	18,859	30,579	19,404
Investment return distributed	1,258	17,656	18,914	18,364
Clinic fees	14,995	—	14,995	13,637
Other	9,257	—	9,257	9,164
Total revenues and gains	<u>313,556</u>	<u>36,515</u>	<u>350,071</u>	<u>332,620</u>
Reclassifications:				
Net assets released from restrictions	<u>17,656</u>	<u>(17,656)</u>	<u>—</u>	<u>—</u>
Total revenues, gains, and reclassifications	<u>331,212</u>	<u>18,859</u>	<u>350,071</u>	<u>332,620</u>
Expenses:				
Instructional and departmental research	191,534	—	191,534	177,160
Auxiliary enterprises	14,403	—	14,403	7,659
Sponsored programs	13,662	—	13,662	14,979
Academic support	43,439	—	43,439	40,779
Student services	58,011	—	58,011	45,573
General administration	4,333	—	4,333	3,812
Public Service	438	—	438	199
Fundraising	3,482	—	3,482	3,017
Total expenses	<u>329,302</u>	<u>—</u>	<u>329,302</u>	<u>293,178</u>
Increase in net assets from operations before other changes	1,910	18,859	20,769	39,442
Other changes:				
Investment return (loss), net of distributions	(8,158)	(57,486)	(65,644)	170,492
Actuarial gain on annuity and trust obligations	154	(1,022)	(868)	1,009
Other changes	—	—	—	6,386
Change in net assets	<u>(6,094)</u>	<u>(39,649)</u>	<u>(45,743)</u>	<u>217,329</u>
Net assets, beginning of year	<u>431,205</u>	<u>643,029</u>	<u>1,074,234</u>	<u>856,905</u>
Net assets, end of year	<u>\$ 425,111</u>	<u>603,380</u>	<u>1,028,491</u>	<u>1,074,234</u>

See accompanying notes to financial statements.

UNIVERSITY OF THE PACIFIC

Statement of Cash Flows

Year ended June 30, 2022
(with comparative financial information
for the year ended June 30, 2021)

(In thousands)

	2022	2021
Cash flows from operating activities:		
Change in net assets	\$ (45,743)	217,329
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	19,988	20,004
Noncash contributions	(571)	(942)
Noncash asset retirement provision	131	(943)
Actuarial gain (loss) on annuity and trust obligations	867	(1,009)
Net realized and unrealized (gains) losses on investments	55,677	(179,205)
Contributions restricted for purchasing capital assets	(2,585)	(2,042)
Contributions restricted for long-term investment	(10,119)	(6,648)
Other noncash items	1,345	1,834
Changes in assets and liabilities:		
Accounts receivable	3,299	(4,787)
Pledges receivable	(8,747)	790
Inventories, prepaid expenses, and other assets	3,898	(4,049)
Accounts payable and accrued liabilities	(1,158)	508
Advance deposits and deferred revenue	5,954	(2,543)
Self-insurance and early retirement reserves	404	1,442
Lease obligations	1,673	3,926
Federal student loan funds	(2,085)	(10,712)
Net cash provided by operating activities	22,228	32,953
Cash flows from investing activities:		
Proceeds from sale of investments	602,397	675,357
Purchase of investments	(607,923)	(681,654)
Purchase of fixed assets	(13,010)	(7,888)
Proceeds from student loan collections	4,427	4,839
Student loans issued	(1,963)	(1,991)
Net cash used in investing activities	(16,072)	(11,337)
Cash flows from financing activities:		
Contributions restricted for purchasing capital assets	2,585	2,042
Contributions restricted for long-term investment	10,119	6,648
Trust and annuity obligations	355	(11)
Proceeds from issuance of bonds payable	20,570	36,860
Payment on notes payable, bonds payable, and finance leases	(35,114)	(51,061)
Net cash used in financing activities	(1,485)	(5,522)
Net change in cash and cash equivalents	4,671	16,094
Cash and cash equivalents, beginning of year	23,774	7,680
Cash and cash equivalents, end of year	\$ 28,445	23,774
Supplemental disclosure of cash flow information:		
Interest paid	\$ 5,358	6,167
Supplemental disclosure of noncash investing and financing activities:		
Equipment acquired under finance leases	\$ 724	459
Contributed securities	2,331	1,130

See accompanying notes to financial statements.

UNIVERSITY OF THE PACIFIC
Notes to Financial Statements
June 30, 2022
(with summarized comparative financial information
for the year ended June 30, 2021)

(1) Organization and Summary of Significant Accounting Policies

(a) Nature of Operations

The University of the Pacific (Pacific) was founded in 1851 as the first chartered institution of higher education in the state of California. Pacific is a mid-sized independent, comprehensive university offering a wide variety of high-quality undergraduate and graduate programs at its Stockton, Sacramento, and San Francisco campuses. Pacific's 6,000+ students may choose from over 80 majors, including professional programs in dentistry, law, pharmacy, and business. Pacific is a not-for-profit 501(c)(3) exempt organization under IRS regulations.

(b) Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting.

Pacific classifies net assets as follows:

- *Without Donor Restrictions* – Net assets that are not subject to donor-imposed restrictions and represent resources available to support Pacific's operations and restricted net assets that have become available for use for the purposes specified by donor(s). Net assets without donor restrictions include funds designated by the Pacific Board of Regents for specific purposes and may otherwise be limited by contractual agreements with outside parties.
- *With Donor Restrictions* – Net assets that represent contributions received for restricted purposes in accordance with donor-specified stipulations, and further governed by the investment and spending policies set by the Board of Regents. These stipulations may expire over a certain time period or may be satisfied by the actions of Pacific in accordance with the donor's intentions. Items that affect this net asset category are gifts for which donor-imposed restrictions have not been met in the year of receipt, including gifts and grants for buildings and equipment not yet placed in service; endowment, annuity, and trusts; pledges; and investment returns on "true" endowment funds, and endowments where the principal may be expended upon the passage of a stated period of time (term endowments). Expirations of restrictions on net assets with donor restrictions, including reclassification of restricted gifts and grants for buildings and equipment when the associated long-lived asset is placed in service, are reported as net assets released from restrictions.

Also included in this category are net assets subject to donor-imposed restrictions to be maintained permanently by the University, including gifts and pledges wherein donors stipulate that the corpus of the gift be held in perpetuity and that only the income be made available for program operations. Other items in this net asset category include annuity and trusts for which the ultimate purpose of the proceeds is permanently restricted. Pledges, trusts, and remainder interests designated for permanently restricted purposes are reported at their estimated net present values.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions as noted above. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulations or by law. Expiration of restrictions on net

UNIVERSITY OF THE PACIFIC
Notes to Financial Statements
June 30, 2022
(with summarized comparative financial information
for the year ended June 30, 2021)

assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets (i.e., released from restrictions).

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, (i.e., when the conditions on which they depend are met). Contributions of assets other than cash are recorded at their estimated fair value on the date of contribution.

In addition: (a) tuition and fees are reflected net of financial aid provided in the form of University-sponsored financial aid and donor-sponsored financial aid; (b) expenses include vested benefits of employees for future compensated absences; and, (c) funds administered as an intermediary for others, including student loan funds provided by federal agencies, are accounted for as receivables and liabilities rather than as net assets of Pacific.

(c) Net Assets Released from Restrictions

Net assets released from restrictions as reported in current operations include appropriation of spending policy from endowed funds and the release of donor-restricted contributions received for scholarships, program support, and capital improvements for which the purpose or time restriction of the individual contributions were met during the reporting period. Capital improvements include expenditures for University building and remodeling projects.

(d) Cash and Cash Equivalents

Cash and cash equivalents include all cash balances and highly liquid investments with a maturity of three months or less other than cash equivalents included in Pacific's investment pool, which are accounted for as investments. Cash and cash equivalents at June 30, 2022 and 2021 included \$1,141,966 and \$6,898,886 held in money market funds. Assets with characteristics of cash and cash equivalents that are held in endowment funds are reported as investments and not included in cash and cash equivalents within the statement of cash flows.

Pacific maintains its operating cash accounts in several commercial banks in amounts that are generally in excess of insured levels. The accounts at the banks are guaranteed by the Federal Deposit Insurance Corporation up to \$250,000 for each financial institution. As of June 30, 2022 and 2021, Pacific's cash of \$27,303,564 and \$16,874,952, included \$26,607,653 and \$16,425,263 respectively, in excess of insured levels. Pacific has not experienced losses on these deposits to date.

(e) Inventories

Inventories are valued at the lower of average cost or market.

UNIVERSITY OF THE PACIFIC
Notes to Financial Statements
June 30, 2022
(with summarized comparative financial information
for the year ended June 30, 2021)

(f) Investments

Investments represent a diversified portfolio of public and private domestic and international equity securities, fixed income securities, and alternative investments, and are reported at fair value as further discussed in note 3. Invested assets include with donor-restricted endowed and without donor restrictions quasi-endowed funds held in the endowment pool as further discussed in note 4.

Investments also include donor-restricted trust and annuity assets and shorter-term investments without donor-restricted assets.

All realized and unrealized gains and losses, dividends, interest and other income on investments are reflected in the statement of activities. Gains and investment income limited to specific uses by donor-imposed restrictions are reported as increases in net assets with donor restrictions until donor-imposed purpose and/or time restrictions have been satisfied.

Portfolio investments are diversified but remain exposed to various risks including but not limited to, market risk, interest rate risk, credit risk, liquidity risk, inflation risk, and currency risk. Diversifying investment exposure across these risks increases the probability of achieving return objectives with less portfolio risk. However, return volatility of the investment portfolio will, from time to time, have a material impact on the net asset value reported on the balance sheet.

In accordance with ASU 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share or Its Equivalent*, investments measured at net asset value (NAV), as a practical expedient for fair value, are excluded from the fair value hierarchy.

(g) Fixed Assets

Fixed assets are recorded at cost, if purchased, or at fair market value at the date of gift, if acquired by donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from 3 to 40 years.

Repairs and maintenance are expensed as incurred and assets are capitalized. The cost and accumulated depreciation of assets retired or sold are removed from the accounts and a gain or loss is recognized in the year of disposal.

(h) Pledges Receivable

Unconditional promises to give expected to be collected in future years are recorded at the present value of their estimated future cash flows. Amortization of discounts is included in contributions revenue. Pledges are reserved based on the judgment of management as to collectability. Donor restricted promises to give are reported as a part of net assets with donor restrictions.

UNIVERSITY OF THE PACIFIC
Notes to Financial Statements
June 30, 2022
(with summarized comparative financial information
for the year ended June 30, 2021)

(i) Trust and Annuity Obligations

Trusts and annuity obligations are established by gifts that require payments to be made to the donor or the donor's designee(s) from assets of the trust and which name Pacific as a beneficiary of all or a portion of the assets remaining at the termination of the trust. Trusts and annuities for which Pacific is the trustee are recorded as contribution revenue at the fair value of the assets received less a liability, computed using actuarial methods, for the present value of the estimated payouts under the agreement. An annual adjustment is made for the actuarial gain or loss on annuity and trust obligations representing differences between assumed and actual experience as to earnings, payouts, and life expectancies used in the computation of the liability for distributions. The net amount of the split-interest trusts are included in net assets with donor restrictions.

Funds held in trust by others represent assets irrevocably held and administered by trustees other than Pacific with Pacific named as a beneficiary to derive income or a residual interest from the assets of such funds after the passage of time or occurrence of specified events. When Pacific is notified that funds have been put in a trust held by others with Pacific designated as beneficiary, contribution revenue is recognized as an increase in with donor restrictions net assets, at the estimated present value of the future cash flows to be received by Pacific.

(j) Collections

Collections include works of art, historical treasures, or similar assets that are held for public exhibition, education, or research in furtherance of Pacific's mission. Since 2015, Pacific has capitalized its collections, if valued at greater than or equal to \$200,000, and they are included in fixed assets. If purchased, items accessioned into collections are capitalized at cost; if donated, they are capitalized at their appraised or estimated fair value on the accession date (the date on which the item is accepted by the Gift Acceptance Committee). Gains or losses on the deaccession of collection items are classified on the statement of activities as with or without donor restriction support depending on donor restrictions, if any, placed on the item at the time of accession.

(k) Self-Insurance Reserves

Pacific is self-insured for workers' compensation, unemployment, and dental benefits. Annual provisions to adjust the reserves for unpaid claims are recorded as an expense of without donor restriction net assets. The reserve for unpaid claims related to workers' compensation is estimated using actuarial methods. It is possible that the amounts paid in connection with self-insured risks will vary from the amount recorded as self-insurance reserves as of June 30, 2022.

(l) Asset Retirement Obligations

Pacific has recorded an estimated liability for the fair value of its conditional asset retirement obligations resulting from statutory and/or regulatory requirements to apply special handling and disposal to asbestos upon retirement of certain buildings. The estimated liability is determined annually on June 30 to reflect remediation efforts and updated costs for abatement.

UNIVERSITY OF THE PACIFIC
Notes to Financial Statements
June 30, 2022
(with summarized comparative financial information
for the year ended June 30, 2021)

(m) Income Taxes

Pacific is tax exempt under Section 501(c)(3) of the Internal Revenue Code and Section 23701d of the Revenue and Taxation Code of the State of California and, generally, is not subject to state or federal taxes on income. However, Pacific remains subject to income taxes on any net income that is derived from a trade or business, regularly carried on, and not in furtherance of the purpose for which it was granted exemption. No income tax provision has been recorded as net income, if any, from any unrelated trade or business and, in the opinion of management, is not material to the financial statements taken as a whole.

(n) Use of Estimates

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

(o) Comparative Totals

The financial statements include certain prior year summarized information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with Pacific's financial statements for the year ended June 30, 2021, from which the summarized information was derived.

(p) Reclassifications

Certain prior year amounts have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the reported change in net assets.

(q) Changes in Accounting Principle

(i) Contributed Nonfinancial Assets

In September 2020, the Financial Accounting Standards Board (FASB) issued ASU 2020-07, Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets (CNA). The adoption of ASU 2020-07 improves the transparency of CNA through enhancements to presentation and disclosures. Information that shows the CNA disaggregated by category are required to be disclosed. In addition, the ASU requires that for each type of CNA the following will be disclosed: (a) policy (if any) on liquidating rather than using the CNA, (b) qualitative considerations on whether the CNA were liquidated or used during the reporting period and, if used, a description of how the asset was employed should be included, (c) any donor imposed restrictions related to the CNA, (d) valuation methods and inputs utilized to determine a fair value measure at initial recognition, and (e) the principal or most advantageous market utilized to calculate fair value if it is a market in which the organization is restricted by the donor from selling or utilizing the CNA. The adoption of this ASU in the current year did not have a material effect on the University's financial statements. See Note 1(t).

UNIVERSITY OF THE PACIFIC
Notes to Financial Statements
June 30, 2022
(with summarized comparative financial information
for the year ended June 30, 2021)

(r) Liquidity and Availability

The following table reflects the University's financial assets as of June 30, 2022 and 2021, reduced by amounts not available for general expenditure within one year. Financial assets are considered unavailable when illiquid or not convertible to cash within one year, such as pledges to be collected beyond a year, donor perpetual endowments, board designated funds for projects and long-term investments, trust assets, and prepaid assets. The University's governing board has designated a portion of its unrestricted resources for endowments. These funds are invested for long term appreciation and current income but remain available and may be spent at the discretion of the board.

	<u>2022</u>	<u>2021</u>
Total assets at year end	\$ 1,275,237	1,331,535
Less:		
Receivables collectable in more than one year	(5,920)	(7,409)
Pledges receivable collectable in more than one year	(7,505)	(6,192)
Donor-restricted endowment funds	(530,608)	(583,453)
Annuities and living trusts	(4,168)	(5,190)
Inventories, prepaid expenses and other assets	(7,583)	(11,481)
Board-designated endowment funds	(37,625)	(41,690)
Property, plant, and equipment	<u>(361,697)</u>	<u>(367,953)</u>
Financial assets available at year end for current use	320,131	308,167
Line of Credit	<u>20,000</u>	<u>20,000</u>
Financial assets and other resources available for use within one year	\$ <u><u>340,131</u></u>	<u><u>328,167</u></u>

The University's practice is to structure its financial assets to be available as its general expenses, liabilities and obligations come due. In addition to financial assets available to meet general expenditures over a 12-month period, the University's goal is to operate with a balanced budget and anticipates collecting revenue to cover general expenditures.

(s) Current Environment

In response to the COVID-19 pandemic, the United States Congress passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act, the Coronavirus Response and Relief Supplemental Appropriations (CRRSA) act, and the American Rescue Plan Act (ARPA). The University recognized \$6,042,000 and \$15,060,000 as of June 30, 2022 and 2021, respectively, in grants and contracts revenue as a result of such Acts. The portion used to award COVID-19 relief to students is included in the student financial aid and the remaining amount was used to offset lost revenues and refunds of housing and dining charges.

UNIVERSITY OF THE PACIFIC
Notes to Financial Statements
June 30, 2022
(with summarized comparative financial information
for the year ended June 30, 2021)

(t) Contributed Nonfinancial Assets

Pacific's policy is to use contributed nonfinancial assets for programmatic or other purposes unless the assets have no utility consistent with Pacific's mission. In those instances, the assets would be monetized. Revenues from contributions of nonfinancial assets were \$868,449 and \$3,617,660 for the years ended June 30, 2022 and 2021, respectively.

(2) Receivables

(a) Accounts Receivable

Accounts receivable as of June 30, 2022 and 2021 are without collateral and consist of (in thousands):

	<u>2022</u>	<u>2021</u>
Student accounts	\$ 7,299	6,142
Clinic	2,517	2,164
Government contracts and other	<u>5,593</u>	<u>10,401</u>
Total	15,409	18,707
Less allowance for doubtful accounts	<u>(1,353)</u>	<u>(1,352)</u>
Accounts receivable, net	<u>\$ 14,056</u>	<u>17,355</u>

(b) Student Loans Receivable

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

Student loans receivable as of June 30, 2022 and 2021 consist of (in thousands):

	<u>2022</u>	<u>2021</u>
Federal government programs	\$ 17,527	19,676
Institutional programs	<u>2,250</u>	<u>2,564</u>
Total	19,777	22,240
Less allowance for doubtful loans	<u>(900)</u>	<u>(900)</u>
Student loans receivable, net	<u>\$ 18,877</u>	<u>21,340</u>

The University participates in the Federal Perkins Loan program and the Health Professionals Student Loan program. There are no new loans being issued under the Perkins program. The availability of loan funds under the programs is dependent on reimbursements to the pool from repayments on outstanding loans.

UNIVERSITY OF THE PACIFIC

Notes to Financial Statements

June 30, 2022

(with summarized comparative financial information
for the year ended June 30, 2021)

Funds advanced by the federal government of \$20.0 million and \$22.1 million at June 30, 2022 and 2021, respectively, are ultimately refundable to the government and are classified as liabilities in the balance sheet. Outstanding loans canceled under the program result in a reduction of the funds available for loan and a decrease in the liability to the government. At June 30, 2022 and 2021, the following amounts were past due under federal student loan programs:

		<u>1–59 days past due</u>	<u>60–90 days past due</u>	<u>90+ days past due</u>	<u>Total past due</u>
June 30, 2022	\$	277,107	126,587	2,563,641	2,967,335
June 30, 2021		242,995	212,333	2,454,652	2,909,980

Allowances for doubtful loans are established based on prior collection experience and current economic factors, which, in management's judgment, could influence the ability of loan recipients to repay the amounts per the loan terms. Institutional loan balances are written off only when they are deemed to be permanently uncollectible. Amounts due under the Federal Perkins Loan program and the Health Professionals Student Loan program are guaranteed by the government, and therefore, no reserves are placed on any past-due balances under either program.

(c) Pledges Receivable

Pledges receivable as of June 30, 2022 and 2021 consist of (in thousands):

		<u>2022</u>	<u>2021</u>
Pledges to be collected:			
In one year or less	\$	14,917	6,574
Between one year and five years		6,332	4,933
In more than five years		<u>1,174</u>	<u>1,259</u>
Total Pledges		22,423	12,766
Less:			
Allowance for nonfulfillment		(4,651)	(3,747)
Discount to present value at .02% to 5.07%		<u>(182)</u>	<u>(176)</u>
Pledges receivable, net	\$	<u>17,590</u>	<u>8,843</u>

UNIVERSITY OF THE PACIFIC
Notes to Financial Statements
June 30, 2022
(with summarized comparative financial information
for the year ended June 30, 2021)

Pledges receivable as of June 30, 2022 and 2021 will, when collected, have the following restrictions (in thousands):

	2022	2021
Endowment with earnings expendable for departmental programs and activities	\$ 6,195	2,436
Endowments with earnings expendable for scholarships	2,290	3,667
Building construction	4,549	1,182
Departmental programs and activities	4,556	1,558
Pledges receivable, net	\$ 17,590	8,843

(3) Investments

The Financial Accounting Standards Boards ASC Topic 820, *Fair Value Measurements and Disclosures*, defined fair value, established a framework used to measure fair value, and expanded disclosures about fair value measurement. The standard prioritizes, within the measurement of fair value, the use of market-based information over entity-specific information and establishes a three-level hierarchy for fair value measurements 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.

Pacific groups its invested assets within the three-level hierarchy, based upon the markets in which the assets are traded and the observability of the assumptions and underlying information used in the determination of fair value at the measurement date. Valuations within these levels are based upon:

- Level I Quoted market prices for identical instruments traded in active exchange markets. Assets in Level I include cash and cash equivalents, time deposits, listed equities, and mutual funds.

- Level II Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and estimated valuation techniques for which all significant assumptions are observable or can be corroborated by observable market data. Assets in Level II include long-term government bonds and commingled funds that invest in Level I securities that are in a limited partnership structure.

- Level III For Level III assets, valuation is based on pricing inputs that reflect assumptions about the factors market participants would use in pricing the asset based on the best information available.

UNIVERSITY OF THE PACIFIC
Notes to Financial Statements
June 30, 2022
(with summarized comparative financial information
for the year ended June 30, 2021)

Net Asset Value Alternative investments that are not readily marketable or redeemable are valued utilizing the most current information provided by the fund managers. The University uses a practical expedient for the estimation of the fair value of investments in funds for which the investment does not have a readily determinable fair value. The practical expedient used by the University is the net asset value (NAV) per share, or its equivalent. The University reviews the valuations and assumptions provided by fund managers for reasonableness and believes that the carrying amounts of these funds are reasonable estimates of fair value.

The following table summarizes the valuation of Pacific's investments by the ASC 820 fair value hierarchy and net asset value (NAV) as of June 30, 2022 (in thousands):

	Fair value measurement at June 30, 2022				June 30, 2022
	Quoted prices in active markets for identical assets (Level I)	Significant other observable inputs (Level II)	Significant unobservable inputs (Level III)	Investments measured at NAV	
Cash and cash equivalents	\$ 174,877	—	—	—	174,877
Time deposits	7,000	—	—	—	7,000
Long-duration government bonds	19,480	973	—	—	20,453
Long-duration bond mutual funds	64,515	—	—	—	64,515
Short-duration bond mutual funds	41,590	—	—	—	41,590
Global bond funds	—	—	—	4,871	4,871
U.S. equities	55,450	—	—	47,926	103,376
U.S. equities mutual funds	72,145	—	—	—	72,145
International equities funds	31,263	—	—	69,314	100,577
Private equity funds	—	—	—	132,482	132,482
Hedge funds	—	—	9	81,548	81,557
Real asset funds	—	—	—	19,967	19,967
Assets held by other trustees	—	—	1,808	—	1,808
Real and personal property	—	—	1,771	—	1,771
	<u>\$ 466,320</u>	<u>973</u>	<u>3,588</u>	<u>356,108</u>	<u>826,989</u>

The following methods and assumptions were used to estimate the fair value of each class of investments:

Cash, cash equivalents, and time deposits: The carrying amount at face value approximates fair value because of the short maturity of these instruments.

Bond mutual funds, U.S. equities, U.S. equities mutual funds, and international equities mutual funds: These are valued using quoted prices in principal active markets for identical assets as of the valuation date. Certain government bonds are valued using other observable inputs from markets that are not active or are for similar assets in active markets.

UNIVERSITY OF THE PACIFIC

Notes to Financial Statements

June 30, 2022

(with summarized comparative financial information
for the year ended June 30, 2021)

Government bonds and certain global bond funds: For the valuation of these investments, Pacific used significant other observable inputs, particularly dealer and market prices for comparable investments as of the valuation date.

The following table summarizes the valuation of Pacific's investments by the ASC 820 fair value hierarchy and net asset value (NAV) as of June 30, 2021 (in thousands):

	<u>Fair value measurement at June 30, 2021</u>				<u>June 30, 2021</u>
	<u>Quoted prices in active markets for identical assets (Level I)</u>	<u>Significant other observable inputs (Level II)</u>	<u>Significant unobservable inputs (Level III)</u>	<u>Investments measured at NAV</u>	
Cash and cash equivalents	\$ 209,933	—	—	—	209,933
Long-duration government bonds	—	1,416	—	—	1,416
Long-duration bond mutual funds	66,180	—	—	—	66,180
Short-duration bond mutual funds	43,523	—	—	—	43,523
Global bond funds	—	—	—	5,909	5,909
U.S. equities	81,210	—	800	57,192	139,202
U.S. equities mutual funds	51,243	—	—	—	51,243
International equities funds	50,080	—	—	87,201	137,281
Private equity funds	—	—	—	111,382	111,382
Hedge funds	—	—	446	89,726	90,172
Real asset funds	—	—	—	19,727	19,727
Assets held by other trustees	—	—	2,118	—	2,118
Real and personal property	—	—	2,703	—	2,703
	<u>\$ 502,169</u>	<u>1,416</u>	<u>6,067</u>	<u>371,137</u>	<u>880,789</u>

Pacific's policy is to recognize significant transfers in and out of Levels I, II, and III at the end of the reporting period. There were no transfers between levels in the current year.

UNIVERSITY OF THE PACIFIC
Notes to Financial Statements
June 30, 2022
(with summarized comparative financial information
for the year ended June 30, 2021)

The following table presents NAV valued investments with applicable funding commitments, redemption, and restrictions as of June 30, 2022 (in thousands):

	<u>Fair value</u>	<u>Unfunded commitments</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>
Private equity funds (a)	\$ 132,482	47,081	See note	See note
Multistrategy hedge funds (b)	13,249	—	Quarterly	65 days
Event-driven hedge funds (c)	22,663	—	Quarterly	25-90 days
Equity long/short hedge funds (d)	45,636	—	Quarterly, semi-annually, annually	30–65 days
Real asset funds (e)	19,967	—	Monthly	16-30 days
International equities funds (f)	69,314	—	Weekly, Monthly	5-30 days
Global bond funds (g)	4,871	—	Monthly	10–30 days
Domestic Equity – Multi-Cap and Multi-Strategy (h)	<u>47,926</u>	<u>—</u>	Monthly	10–30 days
Total	<u>\$ 356,108</u>	<u>47,081</u>		

- (a) This category includes several private equity funds that invest in the United States and internationally. These investments can be recouped through the sale of limited partner interest in the fund. In addition, distributions are received through the liquidation of the underlying assets of the fund to the limited partners. If these investments were held, it is estimated that the underlying assets of the fund would be liquidated over 5 to 10 years. The fair values of the investments in this category have been estimated as the net asset value of Pacific’s ownership interest in partners’ capital. Accelerated liquidation of these investments is possible through the solicitation of qualified buyers that must be approved by the investee fund’s management. As of June 30, 2022, there is no active search for secondary buyers of any current Private Equity Funds.
- (b) This category invests in hedge funds that pursue multiple strategies to diversify risks and reduce volatility. The hedge funds’ composite portfolio for this category includes investments in undervalued and overvalued equity, stressed and distressed credits, private real estate, and arbitrage investments. The fair values of the investments in this category have been estimated using the net asset value per share of the investments. All investments in this category can be redeemed quarterly subject to the redemption notice period. Accelerated liquidation in the secondary markets could lead to the sale of private assets at an amount significantly less than the fair market estimates. The University has no plans to liquidate assets in secondary markets.

UNIVERSITY OF THE PACIFIC

Notes to Financial Statements

June 30, 2022

(with summarized comparative financial information
for the year ended June 30, 2021)

- (c) This category includes investments in hedge funds that seek to profit from companies undergoing extraordinary events that will impact the companies' financial structures. These events can include mergers and acquisitions, distressed and stressed investing, capital structure arbitrage, restructurings and spin-offs. The fair values of the investments in this category have been estimated using the net asset value per share of the investments. All investments in this category can be redeemed quarterly subject to the notice period.
- (d) This category includes investments in hedge funds that invest both long and short in global equities. Management of the hedge funds has the ability to shift investments from value to growth strategies, from small to large capitalization stocks, U.S. and international stocks, and from a net long position to a net short position. The fair values of the investments in this category have been estimated using the net asset value per share of the investments. Investments in this category have quarterly, semi-annual, or annual redemption frequencies subject to redemption notice periods.
- (e) This category includes commodity and inflation hedge strategy funds that invest primarily in global equities, precious metals, commodities, and inflation-linked fixed income. The fair values of the investments in this category have been estimated using the net asset value per share of the investments. All investments in this category can be redeemed monthly subject to the notice period.
- (f) This category includes investments in equity securities of issuers located outside the United States. The fund focuses on issuers located in developed market countries but may allocate a portion of net assets to issuers in emerging market countries. Management of the fund may also invest in non-U.S. currencies and foreign currency exchange contracts to hedge its equity positions. The fair values of the investments in this category have been estimated using the net asset value per share of the investments. All investments in this category can be redeemed weekly and monthly.
- (g) This category includes investments in the sovereign debt and currencies of countries around the world. Investments also include highly rated corporate bonds and mortgage-backed securities. Management may also invest a small allocation in emerging markets and high yield debt. The fair values of the investments in this category have been estimated using the net asset value per share of the investments. All investments in this category can be redeemed monthly.
- (h) This category includes Domestic Equity managers focusing on large, mid, and small-cap equity securities. Managers in this category currently have strategies that include growth and 130/30 active extensions. The fair values in this category have been estimated using the net asset value per share of the investments. All investments in this category can be redeemed monthly.

Investments include approximately \$14,931,000 and \$17,791,000 held under split-interest trust agreements as of June 30, 2022 and 2021, respectively.

UNIVERSITY OF THE PACIFIC
Notes to Financial Statements
June 30, 2022
(with summarized comparative financial information
for the year ended June 30, 2021)

The following summarizes total investment return for endowed and non-endowed assets for the year ended June 30, 2022 and its classification in the statement of activities (in thousands):

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Dividends and interest	\$ 1,363	7,584	8,947
Realized and unrealized losses on investments, net	<u>(8,263)</u>	<u>(47,414)</u>	<u>(55,677)</u>
Total investment return, net	<u>\$ (6,900)</u>	<u>(39,830)</u>	<u>(46,730)</u>
Investment return distributed	\$ 1,258	17,656	18,914
Investment return, net of distributions	<u>(8,158)</u>	<u>(57,486)</u>	<u>(65,644)</u>
Total investment return, net	<u>\$ (6,900)</u>	<u>(39,830)</u>	<u>(46,730)</u>

The following summarizes total investment return for endowed and non-endowed assets for the year ended June 30, 2021 and its classification in the statement of activities (in thousands):

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Dividends and interest	\$ 3,098	6,553	9,651
Realized and unrealized gains on investments, net	<u>12,122</u>	<u>167,083</u>	<u>179,205</u>
Total investment return, net	<u>\$ 15,220</u>	<u>173,636</u>	<u>188,856</u>
Investment return distributed	\$ 1,243	17,121	18,364
Investment return, net of distributions	<u>13,977</u>	<u>156,515</u>	<u>170,492</u>
Total investment return, net	<u>\$ 15,220</u>	<u>173,636</u>	<u>188,856</u>

(4) Endowments

Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. Donor-restricted endowments are classified as net assets with donor restrictions and board-designated endowments are classified as net assets without donor restrictions. In accordance with the California Prudent Management of Institutional Funds Act (CPMIFA), Pacific classifies as with donor-restricted net assets: (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) the accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Accumulated income and gains and losses are included within the donor restricted net asset category, as well as endowed funds that are

UNIVERSITY OF THE PACIFIC
Notes to Financial Statements
June 30, 2022
(with summarized comparative financial information
for the year ended June 30, 2021)

appropriated for spending according to donor-imposed purpose restrictions and Pacific's spending policy as set by the Board of Regents in accordance with the provisions of the CPMIFA.

In the absence of explicit donor instructions on the use of the portion of the endowment funds not stipulated by the donor to be restricted in perpetuity, investment returns, including dividends, interest, and realized and unrealized gains and losses, must be also classified as with donor restricted net assets until appropriated for expenditure in accordance with the Endowment Fund Investment Policy established by Pacific's Board of Regents.

Pacific's investment and spending policy for endowment assets seeks to provide a predictable stream of funding to programs supported by the endowment while simultaneously maintaining the purchasing power of the endowment assets over time. The Pacific endowment represents a collection of individual endowments from benefactors that in the aggregate form a fund from which earnings will support the purposes of each endowment for generations to come.

For the year ended June 30, 2022, Pacific's endowment's spending policy was a target rate of 4% of a twelve-quarter moving average of the fair value of each endowment as of each quarter-end. If an endowment existed less than three years, the fair value for purposes of applying the spending rate was the average of the year-end values since the individual endowment was established. While pledges restricted to with donor-restricted endowment funds were included in the total endowment at June 30, 2022, these investments are not subject to the target rate per the spending policy and are not considered part of invested endowed assets. Funds from spending appropriations are distributed in equal quarterly installments as determined at the beginning of each fiscal year.

Pacific's Board of Regents adopted an Endowment Fund Investment Policy reflective of CPMIFA provisions and the Board's desire to balance near-term spending and investment returns in a manner that ensures current programs receive appropriate support while protecting the Endowment's future purchasing power from the effects of inflation. Under the policy, in future periods, endowed funds with deficiencies will be allowed to utilize accumulated realized and unrealized gains to fund spending appropriations, while spending rates will be adjusted from time to time as considered prudent in order to preserve future endowment purchasing power.

Endowment net asset composition by type of fund as of June 30, 2022 (in thousands):

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Board-designated endowment funds	\$ 37,625	—	37,625
Donor-restricted endowment funds:			
Accumulated investments gains	—	165,043	165,043
Original donor-restricted gift amount	—	365,565	365,565
Total funds	<u>\$ 37,625</u>	<u>530,608</u>	<u>568,233</u>

UNIVERSITY OF THE PACIFIC
Notes to Financial Statements
June 30, 2022
(with summarized comparative financial information
for the year ended June 30, 2021)

Endowment net asset composition by type and fund as of June 30, 2021 (in thousands):

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Board-designated endowment funds	\$ 41,690	—	41,690
Donor-restricted endowment funds:			
Accumulated investments gains	—	228,009	228,009
Original donor-restricted gift amount	—	355,444	355,444
Total funds	<u>\$ 41,690</u>	<u>583,453</u>	<u>625,143</u>

Changes in endowment net assets were as follows for the year ended June 30, 2022 (in thousands):

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Invested endowment assets, beginning of year	\$ 41,690	583,453	625,143
Investment return:			
Dividends and interest	230	3,323	3,553
Realized and unrealized (losses), net	<u>(3,037)</u>	<u>(48,631)</u>	<u>(51,668)</u>
Total investment return	(2,807)	(45,308)	(48,115)
Contributions	—	9,977	9,977
Spending policy distributed	(1,258)	(17,656)	(18,914)
Transfers into endowment	<u>—</u>	<u>142</u>	<u>142</u>
Endowment net assets, end of year	<u>\$ 37,625</u>	<u>530,608</u>	<u>568,233</u>

UNIVERSITY OF THE PACIFIC
Notes to Financial Statements
June 30, 2022
(with summarized comparative financial information
for the year ended June 30, 2021)

Changes in endowment net assets were as follows for the year ended June 30, 2021 (in thousands):

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Invested endowment assets, beginning of year	\$ 30,501	425,299	455,800
Investment return:			
Dividends and interest	117	1,987	2,104
Realized and unrealized gains, net	<u>11,745</u>	<u>166,640</u>	<u>178,385</u>
Total investment return	11,862	168,627	180,489
Contributions	—	8,621	8,621
Spending policy distributed	(1,243)	(17,121)	(18,364)
Transfers into (out of) endowment	<u>570</u>	<u>(1,973)</u>	<u>(1,403)</u>
Endowment net assets, end of year	<u>\$ 41,690</u>	<u>583,453</u>	<u>625,143</u>

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level required by the donor or law. The deficiencies of this nature reported in donor-restricted net assets were \$1,121,000, related to 115 endowment funds, and \$226, related to one endowment fund, as of June 30, 2022 and 2021, respectively. These cumulative deficiencies resulted from unfavorable market fluctuations.

(5) Fixed Assets

Fixed assets as of June 30, 2022 and 2021 consist of (in thousands):

	<u>2022</u>	<u>2021</u>
Land	\$ 6,263	6,263
Buildings	496,869	496,314
Equipment	70,177	68,326
Library books and collections	58,408	58,112
Construction in progress	6,336	8,552
Improvements other than buildings	<u>53,139</u>	<u>41,425</u>
	691,192	678,992
Less accumulated depreciation	<u>(329,495)</u>	<u>(311,039)</u>
Total fixed assets, net	<u>\$ 361,697</u>	<u>367,953</u>

UNIVERSITY OF THE PACIFIC
Notes to Financial Statements
June 30, 2022
(with summarized comparative financial information
for the year ended June 30, 2021)

(6) Notes and Bonds Payable

Notes and bonds payable as of June 30, 2022 and 2021 consist of (in thousands):

	<u>2022</u>	<u>2021</u>
California Educational Facilities Authority (CEFA):		
Project Revenue Bonds:		
Series 2012A, 2.00–4.50%, due 2021 to 2042	\$ —	24,360
Series 2014, 1.75%, due 2022 to 2027	11,695	13,825
Series 2015, 2.00–5.00%, due 2022 to 2036	54,860	57,010
California Municipal Finance Authority (CMFA):		
Project Revenue Bonds:		
Series 2020A, 3.00–5.00%, due 2022 to 2048	35,950	36,860
Series 2021A, 4.00–5.00%, due 2022 to 2042	20,570	—
	<u>123,075</u>	<u>132,055</u>
Unamortized premium on bonds	13,579	13,004
Bond issue costs (net)	<u>(1,360)</u>	<u>(1,752)</u>
Total bonds payable	135,294	143,307
Notes payable:		
JPMC Term Loan, 2.77%, due 2027	6,258	7,398
Total notes and bonds payable	<u>\$ 141,552</u>	<u>150,705</u>

Scheduled maturities of notes and bonds payable are (in thousands):

	<u>Bonds</u>	<u>Notes</u>	<u>Total</u>
Year ending June 30:			
2023	\$ 6,875	1,140	8,015
2024	7,105	1,140	8,245
2025	7,455	1,140	8,595
2026	7,700	1,140	8,840
2027	7,980	1,140	9,120
Thereafter	85,960	558	86,518
	<u>\$ 123,075</u>	<u>6,258</u>	<u>129,333</u>

UNIVERSITY OF THE PACIFIC
Notes to Financial Statements
June 30, 2022
(with summarized comparative financial information
for the year ended June 30, 2021)

Sinking fund requirements on CEFA Revenue Bonds, Series 2015, CMFA Project Revenue Bonds, Series 2020A and Series 2021A, are as follows (in thousands):

Year ending:		
2032	\$	530
2033		555
2034		580
2035		5,305
2036		5,570
Thereafter		19,200
	\$	31,740

(a) California Municipal Finance Authority (CMFA) Project Revenue Bonds

In October 2020, Pacific issued CMFA Revenue Bonds, Series 2020A, in the amount of \$36,860,000 with premium of \$5,685,523. Such bonds are payable in varying annual installments through 2048 with interest paid semiannually at rates ranging from 3.00%-5.00%. After original issue premium and cost of issuance, net proceeds of \$10,762,368 were deposited into an escrow account for the purpose of refunding payments of principal and interest on Pacific's Series 2009 Bonds and \$31,176,062 was deposited into an escrow account for the purpose of refunding payments of principal and interest on Pacific's Series 2016 Bonds. The University was legally defeased relating to the Series 2009 and 2016 Bonds. No new debt was incurred with this issuance.

In August 2021, Pacific issued CMFA Revenue Bonds, Series 2021A, in the amount of \$20,570,000 with premium of \$2,971,863. Such bonds are payable in varying annual installments through 2042 with interest paid semiannually at rates ranging from 4.00%-5.00%. After original issue premium and cost of issuance, net proceeds of \$23,343,096 were deposited into an escrow account for the purpose of refunding payments of principal and interest on Pacific's Series 2012A Bonds. The University was legally defeased relating to the Series 2012A Bonds. No new debt was incurred with this issuance.

(b) California Educational Facilities Authority (CEFA) Project Revenue Bonds

In August 2015, Pacific issued CEFA Revenue Bonds, Series 2015, in the amount of \$68,005,000 with premium of \$7,992,350. Such bonds are payable in varying annual installments through 2036 with interest paid semiannually at rates ranging from 2.00%–5.00%. After original issue premium and costs of issuance, net proceeds of \$6,003,755 were deposited into an escrow account for the purpose of refunding payments of principal and interest on Pacific's Series 2004 Bonds and \$69,105,500 was deposited into an escrow account for the purpose of refunding payments of principal and interest on Pacific's Series 2006 Bonds. No new debt was incurred with this issuance.

In June 2014, Pacific entered into a Loan Agreement with CEFA, whereby CEFA privately placed issuances with a bank of par \$36,500,000 fixed rate tax exempt Revenue Bonds (Series 2014) with final maturity of 2034. The proceeds of the 2014 Bonds were used to pay off a Line of Credit and to finance the capital project in San Francisco. The Series 2014 Bonds were issued at par value with a

UNIVERSITY OF THE PACIFIC
Notes to Financial Statements
June 30, 2022
(with summarized comparative financial information
for the year ended June 30, 2021)

stated interest rate of 2.37% that are fixed under an initial rate period until June 22, 2021. In October 2020, the bonds interest rate was reset to 1.75% with final maturity of 2027.

(c) JPMorgan Chase Term Loan

In June 2014, Pacific entered into a taxable Loan Agreement with JPMorgan Chase (JPMC) in the amount of \$19,500,000 with final maturity originally expected in 2021. The proceeds of the loan were used to pay off a line of credit and to cover the costs associated with the leased tenant space at 155 5th Street. The taxable loan had principal and interest payable semi-annually with a stated interest rate of 3.13% that was fixed under an initial rate period until June 22, 2021. In October 2020, the loan interest rate was reset to 2.77% with final maturity of 2027.

(d) U.S. Bank Line of Credit

In November 2020, Pacific entered into a line of credit agreement with U.S. Bank National Association of \$20,000,000. There were no borrowings against the line at June 30, 2022. The line bears interest at an annual rate equal to 0.65% plus the greater of (i) 0.0% and (ii) the one-month forward-looking term rate based on SOFR quoted by U.S. Bank. Under the terms of the line of credit, Pacific is required to maintain a specified debt service coverage ratio and liquidity ratio, as those terms are defined.

(7) Retirement Benefits

Defined contribution retirement benefits are provided for University employees principally through the Teachers Insurance and Annuity Association (TIAA-CREF), a national organization used to manage retirement benefits for educational institutions. Under this arrangement, Pacific and plan participants make monthly contributions to TIAA-CREF to fund retirement benefits, which are immediately vested with the employee. Pacific's share of the cost of these benefits for the years ended June 30, 2022 and 2021 was approximately \$13,656,000 and \$259,000, respectively.

(8) Commitments and Contingencies

Pacific is involved in various items of litigation, most of which involve employment matters. Management believes each of these matters has meritorious defenses and intends to defend these cases vigorously and believes the ultimate liability, if any, will not be material to the financial position of Pacific.

(9) Leases

Pacific is obligated under various finance leases for equipment that expires at various dates during the next five years. As of June 30, 2022 and 2021, the gross amount of equipment recorded under active finance leases was as follows (in thousands):

	<u>2022</u>	<u>2021</u>
Equipment	\$ 1,726	1,869
Less accumulated depreciation	<u>(794)</u>	<u>(1,151)</u>
	<u>\$ 932</u>	<u>718</u>

UNIVERSITY OF THE PACIFIC
Notes to Financial Statements
June 30, 2022
(with summarized comparative financial information
for the year ended June 30, 2021)

Pacific also has several non-cancellable operating leases, primarily for transportation, office equipment, student housing, and office space that expire over the next five years. Some of these leases contain renewal options; in instances where Pacific is reasonably certain to exercise these renewal options, the options are considered in determining the lease term and the associated option payments are included in future lease payment calculations. Payments due under the lease contracts primarily include fixed payments.

Maturities of lease liabilities under non-cancellable leases as of June 30, 2022 are as follows (in thousands):

	<u>Operating leases</u>	<u>Finance leases</u>
Fiscal year ending June 30:		
2023	\$ 740	378
2024	439	232
2025	278	61
2026	101	61
Thereafter	<u>115</u>	<u>—</u>
Total minimum lease payments	1,673	732
Less amounts representing interest	<u>—</u>	<u>(24)</u>
Present value of net minimum lease payments	<u>\$ 1,673</u>	<u>708</u>

Maturities of lease liabilities under non-cancellable leases as of June 30, 2021 were as follows (in thousands):

	<u>Operating leases</u>	<u>Finance leases</u>
Fiscal year ending June 30:		
2022	\$ 1,996	340
2023	1,545	156
2024	239	—
2025	114	—
Thereafter	<u>32</u>	<u>—</u>
Total minimum lease payments	3,926	496
Less amounts representing interest	<u>—</u>	<u>(12)</u>
Present value of net minimum lease payments	<u>\$ 3,926</u>	<u>484</u>

UNIVERSITY OF THE PACIFIC
Notes to Financial Statements
June 30, 2022
(with summarized comparative financial information
for the year ended June 30, 2021)

(10) Composition of Net Assets

The composition of the categories of net assets as of June 30, 2022 and 2021 consists of (in thousands):

	<u>2022</u>	<u>2021</u>
Without donor restrictions:		
Undesignated net assets	\$ 15,409	24,678
Designated for specific purposes	151,932	147,589
Quasi-endowment	37,625	41,690
Investment in fixed assets, net of long-term debt and capital lease obligations	<u>220,145</u>	<u>217,248</u>
Total without donor restrictions	<u>425,111</u>	<u>431,205</u>
With donor restrictions:		
Time or purpose:		
Unappropriated endowment earnings	165,043	228,009
Trust and annuities and other funds	25,466	20,278
Amounts restricted by donors for programs	2,690	2,650
Amounts restricted by donors for investment in plant	2,959	2,959
Pledges receivable for programs	4,556	1,558
Pledges receivable for investment in plant	<u>4,549</u>	<u>1,182</u>
Total with donor restrictions for time or purpose	<u>205,263</u>	<u>256,636</u>
Perpetual:		
Endowments	365,565	355,444
Other donor restricted funds	18,639	18,647
Trust and annuities	5,428	6,199
Pledges receivable	<u>8,485</u>	<u>6,103</u>
Total with donor restrictions in perpetuity	<u>398,117</u>	<u>386,393</u>
Total with donor restrictions	<u>603,380</u>	<u>643,029</u>
	<u>\$ 1,028,491</u>	<u>1,074,234</u>

(11) Expenses by Function

Certain categories expenses that are attributable to more than one program or supporting function are allocated based on the percentage of the functional category's share of expenses to total expenses. All other costs are charged directly to the appropriate functional category.

UNIVERSITY OF THE PACIFIC
Notes to Financial Statements
June 30, 2022
(with summarized comparative financial information
for the year ended June 30, 2021)

Expenses by natural and functional classification were as follows for the year ended June 30, 2022 (in thousands):

	Year ended June 30, 2022								Total
	Instructional and departmental research	Auxiliary Enterprises	Sponsored programs	Academic support	Student services	General administration	Fundraising	Public Service	
Compensation and benefits	\$ 133,658	1,553	7,653	28,702	35,256	2,480	2,284	327	211,913
Professional and outsourced services	10,443	1,557	327	1,182	2,852	294	217	11	16,883
Computers, software, and maintenance agreements	5,750	105	194	4,795	2,390	354	131	10	13,729
Equipment and supplies	12,875	627	3,507	2,192	4,067	247	203	8	23,726
Travel	643	10	81	222	517	16	41	2	1,532
Occupancy	5,456	1,902	511	1,224	1,786	138	96	12	11,125
Cost of goods sold	—	1,953	—	—	—	—	—	—	1,953
Other	4,226	6,389	288	997	5,422	165	190	26	17,703
Financial and insurance	6,325	307	234	1,368	2,039	364	99	14	10,750
Depreciation and amortization	12,158	—	867	2,757	3,682	275	221	28	19,988
Total	\$ 191,534	14,403	13,662	43,439	58,011	4,333	3,482	438	329,302

	Year ended June 30, 2021								Total
	Instructional and departmental research	Auxiliary Enterprises	Sponsored programs	Academic support	Student services	General administration	Fundraising	Public Service	
Compensation and benefits	\$ 123,404	1,282	7,179	27,360	29,587	2,355	2,266	151	193,584
Professional and outsourced services	9,424	793	722	937	2,544	273	83	10	14,786
Computers, software, and maintenance agreements	5,974	48	287	5,351	2,227	330	104	6	14,327
Equipment and supplies	11,734	1,086	4,568	1,207	1,532	16	94	2	20,239
Travel	75	23	11	12	130	2	3	—	256
Occupancy	4,248	1,968	476	968	1,080	103	70	5	8,918
Cost of goods sold	—	1,663	—	—	—	—	—	—	1,663
Other	2,892	559	366	532	3,433	85	84	3	7,954
Financial and insurance	6,997	237	321	1,555	1,847	381	102	8	11,448
Depreciation and amortization	12,412	—	1,049	2,857	3,193	267	211	14	20,003
Total	\$ 177,160	7,659	14,979	40,779	45,573	3,812	3,017	199	293,178

(12) Related-Party Transactions

Included in revenues for the years ended June 30, 2022 and 2021 are contributions from Board of Regents members totaling \$2,411,403 and \$7,208,675, respectively. In addition, pledge payments totaling \$401,769 and \$2,340,030 were received from Board of Regents members during the years ended June 30, 2022 and 2021, respectively.

Pledges include promises to give from members of the Board of Regents. As of June 30, 2022 and 2021, the net present value of Board of Regents' pledges outstanding totaled approximately \$1,177,531 and \$1,706,717, respectively.

(13) Subsequent Events

Pacific has evaluated its subsequent events through November 3, 2022, which is the date the financial statements were issued.



KPMG LLP
500 Capitol Mall, Ste 2100
Sacramento, CA 95814-4754

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

The Board of Regents
University of the Pacific:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of University of the Pacific (the University), which comprise the University's balance sheet as of June 30, 2022, and the related statement of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 3, 2022.

Report on Internal Control Over Financial Reporting

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

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

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

Report on Compliance and Other Matters

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



Purpose of This Report

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

KPMG LLP

Sacramento, California
November 3, 2022