



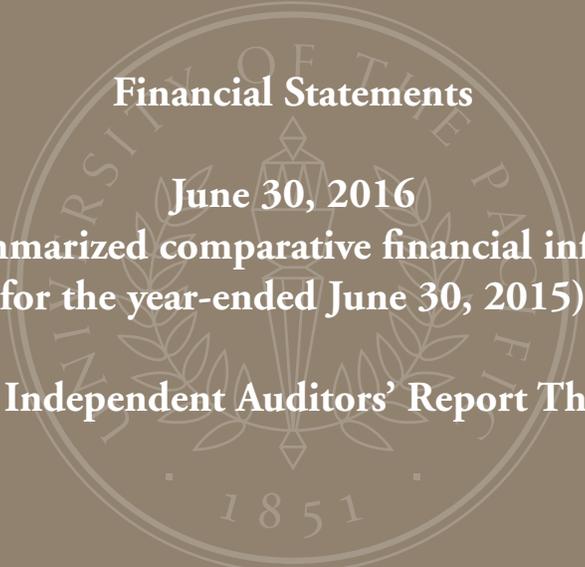
# UNIVERSITY OF THE PACIFIC

## Financial Statements

June 30, 2016

(with summarized comparative financial information  
for the year-ended June 30, 2015)

(With Independent Auditors' Report Thereon)



# UNIVERSITY OF THE PACIFIC

## Table of Contents

	<b>Page(s)</b>
Independent Auditors' Report	1-2
Financial Statements:	
Balance Sheet	3
Statement of Activities	4
Statement of Cash Flows	5
Notes to Financial Statements	6-30
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>	31-32



**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 Financial Statements**

We have audited the accompanying financial statements of the University of the Pacific (Pacific), which comprise the balance sheet as of June 30, 2016, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

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

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

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University of the Pacific as of June 30, 2016, 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.



***Report on Summarized Comparative Information***

We have previously audited the University of Pacific's 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 10, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015 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 7, 2016 on our consideration of the University of the Pacific'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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University of the Pacific's internal control over financial reporting and compliance.

**KPMG LLP**

Sacramento, California  
November 7, 2016

**UNIVERSITY OF THE PACIFIC**

Balance Sheet

June 30, 2016

(with comparative financial information  
as of June 30, 2015)

(In thousands)

<b>Assets</b>	<b>2016</b>	<b>2015</b>
Cash and cash equivalents	\$ 11,566	6,082
Accounts receivable, net	8,212	7,629
Pledges receivable, net	16,954	20,103
Estate gift receivable	1,850	1,850
Inventories, prepaid expenses, and other assets	8,203	8,077
Student loans receivable, net	31,590	33,043
Investments	540,065	562,164
Fixed assets, net	367,944	380,891
Total assets	\$ 986,384	1,019,839
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued liabilities	\$ 24,887	24,110
Advance deposits and deferred revenue	14,621	12,993
Self-insurance reserves	11,382	10,872
Early retirement reserves	1,691	1,551
Capital lease obligations	1,664	1,661
Asset retirement obligations	8,141	7,776
Notes and bonds payable	162,051	174,618
Trust and annuity obligations	9,349	9,504
Federal student loan funds	31,177	30,632
Total liabilities	264,963	273,717
Net assets:		
Unrestricted	343,124	351,427
Temporarily restricted	68,505	97,301
Permanently restricted	309,792	297,394
Total net assets	721,421	746,122
Total liabilities and net assets	\$ 986,384	1,019,839

See accompanying notes to financial statements.

**UNIVERSITY OF THE PACIFIC**

Statement of Activities

Year ended June 30, 2016

(with summarized financial information  
for the year ended June 30, 2015)

(In thousands)

	2016			Total	2015 Total
	Unrestricted	Temporarily restricted	Permanently restricted		
Revenues, gains, and other support:					
Tuition and student fees	\$ 296,695	—	—	296,695	288,955
University-sponsored financial aid	(63,523)	—	—	(63,523)	(60,749)
Donor-sponsored financial aid	(7,582)	—	—	(7,582)	(6,279)
Net tuition and fees	225,590	—	—	225,590	221,927
Sales and services of auxiliary enterprises	28,523	—	—	28,523	27,902
Government grants and contracts	11,604	—	—	11,604	11,549
Private grants, gifts, and bequests	11,116	—	12,019	23,135	31,997
Investment return distributed	4,105	12,996	—	17,101	10,139
Clinic fees	13,633	—	—	13,633	12,975
Other	12,009	—	—	12,009	8,873
Total revenues, gains, and other support	306,580	12,996	12,019	331,595	325,362
Reclassifications:					
Net assets released from restrictions	13,992	(13,992)	—	—	—
Total revenues, gains, other support, and reclassifications	320,572	(996)	12,019	331,595	325,362
Expenses:					
Instructional and departmental research	148,723	—	—	148,723	141,639
Auxiliary enterprises	31,127	—	—	31,127	31,875
Sponsored programs	10,692	—	—	10,692	10,708
Academic support	28,833	—	—	28,833	27,132
Student services	26,328	—	—	26,328	22,038
Student aid	1,359	—	—	1,359	1,430
General administration	12,288	—	—	12,288	11,718
Fundraising	14,153	—	—	14,153	13,033
Operation and maintenance of plant	18,624	—	—	18,624	23,505
Depreciation and amortization	22,648	—	—	22,648	20,821
Interest	7,746	—	—	7,746	7,335
Total expenses	322,521	—	—	322,521	311,234
Increase (decrease) in net assets from operations before other changes	(1,949)	(996)	12,019	9,074	14,128
Other changes:					
Gain on sale of real estate	—	—	—	—	4,342
Investment (loss) return, net of distributions	(2,359)	(22,510)	—	(24,869)	1,079
Actuarial gain (loss) on annuity and trust obligations	—	(2,255)	379	(1,876)	(529)
Other changes	(3,995)	(3,035)	—	(7,030)	—
Change in net assets	(8,303)	(28,796)	12,398	(24,701)	19,020
Net assets, beginning of year	351,427	97,301	297,394	746,122	727,102
Net assets, end of year	\$ 343,124	68,505	309,792	721,421	746,122

See accompanying notes to financial statements.

**UNIVERSITY OF THE PACIFIC**  
Statement of Cash Flows  
Year ended June 30, 2016  
(with comparative financial information  
for the year ended June 30, 2015)  
(In thousands)

	<b>2016</b>	<b>2015</b>
Cash flows from operating activities:		
Change in net assets	\$ (24,701)	19,020
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	22,648	20,821
Noncash contributions	(2,901)	(9,575)
Noncash asset retirement provision	365	(177)
Actuarial (gain) loss on annuity and trust obligations	1,876	515
Net realized and unrealized (gains) losses on investments	16,904	173
Contributions restricted for purchasing capital assets	1,796	(1,047)
Contributions restricted for long-term investment	(9,515)	(6,728)
Gain on sale of real estate	—	(4,342)
Other noncash items	10,760	3,804
Changes in assets and liabilities:		
Accounts receivable	(583)	3,006
Pledges receivable	3,149	(3,580)
Estate gift receivable	—	2,650
Inventories, prepaid expenses, and other assets	(126)	(933)
Accounts payable and accrued liabilities	777	(23,459)
Advance deposits and deferred revenue	1,628	326
Self-insurance reserves	511	1,319
Early retirement reserves	140	(250)
Federal student loan funds	545	514
Net cash provided by operating activities	23,273	2,057
Cash flows from investing activities:		
Proceeds from sale of investments	495,567	561,223
Purchase of investments	(488,289)	(558,650)
Proceeds from sale of real estate	—	1,411
Purchase of fixed assets	(11,910)	(9,168)
Proceeds from student loan collections	6,067	5,175
Student loans issued	(4,614)	(6,239)
Net cash used in investing activities	(3,179)	(6,248)
Cash flows from financing activities:		
Contributions restricted for purchasing capital assets	(1,796)	1,047
Contributions restricted for long-term investment	9,515	6,728
Trust and annuity obligations	(1,547)	(490)
Payment on notes and bonds payable, and capital lease obligations	(20,782)	(7,472)
Net cash used in financing activities	(14,610)	(187)
Net change in cash and cash equivalents	5,484	(4,378)
Cash and cash equivalents, beginning of year	6,082	10,460
Cash and cash equivalents, end of year	\$ 11,566	6,082
Supplemental disclosure of cash flow information:		
Interest paid	\$ 7,657	7,310
Supplemental disclosure of noncash investing and financing activities:		
Equipment acquired under capital leases	\$ 1,794	478
Defeasance of bonds	66,275	—
Real estate financing	—	4,212
Contributed securities	421	2,072

See accompanying notes to financial statements.

# UNIVERSITY OF THE PACIFIC

## Notes to Financial Statements

June 30, 2016

(with summarized comparative financial information  
for the year ended June 30, 2015)

### (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 6,300+ 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:

- *Unrestricted net assets* represent resources available to support Pacific's operations and temporarily restricted net assets that have become available for use for the purposes specified by donor(s). Unrestricted net assets include funds designated by the Pacific Board of Regents for specific purposes and may otherwise be limited by contractual agreements with outside parties.
- *Temporarily restricted net assets* represent contributions received for restricted purposes in accordance with donor-specified stipulations. 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. Upon satisfaction of donor-imposed requirements, the associated net assets are released from temporarily restricted net assets and included in unrestricted net assets. Temporarily restricted net assets include gifts of cash and securities, pledges, split-interest trusts, and other gifts not intended to be invested in perpetuity but instead to be used to meet shorter-term operational needs such as capital projects. Temporarily restricted net assets also include accumulated net gains on permanently restricted endowment funds to be appropriated for spending according to donor stipulations.
- *Permanently restricted net assets* represent contributions to be held in perpetuity as specified by the terms of the underlying donor agreement, and further governed by the investment and spending policies set by the Board of Regents. Permanently restricted net assets include gifts of cash and securities held in the Pacific Endowment Pool, pledges, split-interest trusts, and similar assets. Pledges, trusts, and remainder interests designated for permanently restricted purposes are reported at their estimated net present values. All permanently restricted net assets are reported at the original amount of the gift plus the portion, if any, of earnings explicitly stipulated by the donor to be added to corpus.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions as noted above. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or

# UNIVERSITY OF THE PACIFIC

## Notes to Financial Statements

June 30, 2016

(with summarized comparative financial information  
for the year ended June 30, 2015)

decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or by law. Expiration of restrictions on net 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 substantially met). Contributions of assets other than cash are recorded at their estimated fair value on the date of contribution.

Income and realized and unrealized net gains on investments of permanently restricted net assets are generally recorded as increases to temporarily restricted net assets. Realized and unrealized net losses on investments of permanently restricted net assets are recorded as decreases to temporarily restricted net assets to the extent that they exist, and then to unrestricted net assets.

In addition: (a) tuition and fees are reflected net of financial aid provided in the form of institutional scholarships; (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 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, 2016 included \$4,010,259 held in money market funds.

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, 2016, Pacific's cash of \$7,555,461 included \$6,887,566 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, 2016

(with summarized comparative financial information  
for the year ended June 30, 2015)

**(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 permanently restricted endowed and unrestricted quasi-endowed funds held in the endowment pool as further discussed in note 4. Investments also include temporarily and permanently restricted split-interest trust assets and shorter-term investments of unrestricted and temporarily 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 (for both temporarily restricted gifts and donor-restricted endowment funds) are reported as increases in temporarily restricted net assets until donor-imposed purpose and/or time restrictions have been satisfied. Losses on investments of donor-restricted endowment funds are classified as decreases in temporarily restricted net assets to the extent that they exist, and then to unrestricted net assets. Subsequent gains that restore the fair value of donor-restricted endowments to required levels are recorded as increases in unrestricted net assets.

Investment securities are exposed to various risks such as interest rate, market fluctuations, and credit risk. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the valuation of investment securities will occur in the near term and potentially have a material positive or negative impact on the net assets reported in the balance sheet.

**(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 collectibility. Donor restricted promises to give are reported as temporarily or permanently restricted contributions, depending on the donor restriction.

# UNIVERSITY OF THE PACIFIC

## Notes to Financial Statements

June 30, 2016

(with summarized comparative financial information  
for the year ended June 30, 2015)

**(i) *Estate Gift Receivable***

Pacific has been named as the residual beneficiary of a Trust, and Pacific's interest in those assets has been estimated and recorded as an estate gift receivable in the accompanying financial statements. The receivable was collected subsequent to June 30, 2016.

**(j) *Split-Interest Trusts***

Split-interest trusts 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. Split-interest trusts 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 temporarily or permanently restricted net assets, depending on the terms of the donor's restriction.

**(k) *Assets Held by Other Trustees***

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 temporarily or permanently restricted net assets, depending on the nature of the restriction imposed by the donor, at the estimated present value of the future cash flows to be received by Pacific.

**(l) *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. Pacific has capitalized its collections since its inception. 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 unrestricted or temporarily restricted support depending on donor restrictions, if any, placed on the item at the time of accession.

**(m) *Self-Insurance Reserves***

Pacific is self-insured for workers' compensation, unemployment, dental, and disability benefits. Annual provisions to adjust the reserves for unpaid claims are recorded as an expense of unrestricted net assets. The reserve for unpaid claims related to workers' compensation is estimated using

# UNIVERSITY OF THE PACIFIC

## Notes to Financial Statements

June 30, 2016

(with summarized comparative financial information  
for the year ended June 30, 2015)

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, 2016.

**(n) *Asset Retirement Obligations***

In accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 410, *Asset Retirement and Environmental Obligations* (formerly known as Financial Accounting Standards Board Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations*, an Interpretation of FASB Statement No. 143), 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.

**(o) *Undistributed Estates***

Bequests are recorded as contribution revenue when the court orders distribution.

**(p) *Expenses***

Expenses are reported as decreases in unrestricted net assets.

**(q) *Income Taxes***

Pacific is tax exempt under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) 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.

Pacific establishes for all entities, including pass-through entities, a minimum threshold for financial statement recognition of the benefit of positions taken in filing tax returns (including whether an entity is taxable in a particular jurisdiction) and requires certain expanded tax disclosures. No such uncertain tax positions exist for Pacific at June 30, 2016.

**(r) *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.

**UNIVERSITY OF THE PACIFIC**

Notes to Financial Statements

June 30, 2016

(with summarized comparative financial information  
for the year ended June 30, 2015)

(s) *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, 2015, from which the summarized information was derived.

(2) **Receivables**

(a) *Accounts Receivable*

Accounts receivable as of June 30, 2016 and 2015 are without collateral and consist of (in thousands):

	<b>2016</b>	<b>2015</b>
Student accounts	\$ 2,270	1,892
Clinic	3,159	3,614
Government contracts and other	4,211	3,626
Total	9,640	9,132
Less allowance for doubtful accounts	(1,428)	(1,503)
Accounts receivable, net	\$ 8,212	7,629

(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, 2016 and 2015 are without collateral and consist of (in thousands):

	<b>2016</b>	<b>2015</b>
Federal government programs	\$ 30,098	31,137
Institutional programs	2,392	2,806
Total	32,490	33,943
Less allowance for doubtful loans	(900)	(900)
Student loans receivable, net	\$ 31,590	33,043

**UNIVERSITY OF THE PACIFIC**

Notes to Financial Statements

June 30, 2016

(with summarized comparative financial information  
for the year ended June 30, 2015)

The University participates in the Federal Perkins Loan program and the Health Professionals Student Loan program. The availability of loan funds under the programs is dependent on reimbursements to the pool from repayments on outstanding loans. Funds advanced by the federal government of \$31.2 million and \$30.6 million at June 30, 2016 and 2015, 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, 2016 and 2015, 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, 2016	\$ 805,859	412,912	2,137,964	3,356,735
June 30, 2015	734,041	315,351	2,227,325	3,276,717

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, 2016 and 2015 are without collateral and consist of (in thousands):

	<u>2016</u>	<u>2015</u>
Pledges to be collected:		
In one year or less	\$ 13,340	10,415
Between one year and five years	12,081	13,659
In more than five years	694	1,054
Total pledges	<u>26,115</u>	<u>25,128</u>
Less:		
Allowance for nonfulfillment	(8,538)	(4,306)
Discount to present value at 0.02% to 5.16%	(623)	(719)
Pledges receivable, net	<u>\$ 16,954</u>	<u>20,103</u>

**UNIVERSITY OF THE PACIFIC**

Notes to Financial Statements

June 30, 2016

(with summarized comparative financial information  
for the year ended June 30, 2015)

Pledges receivable as of June 30, 2016 and 2015 will, when collected, have the following restrictions (in thousands):

	<b>2016</b>	<b>2015</b>
Endowment with earnings expendable for departmental programs and activities	\$ 4,534	5,251
Endowments with earnings expendable for scholarships	1,794	1,184
Building construction	7,349	10,048
Departmental programs and activities	3,277	3,620
	\$ 16,954	20,103

**(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 prioritized, within the measurement of fair value, the use of market-based information over entity-specific information and established 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, fixed income securities, 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 and corporate bonds and commingled funds that invest in Level I securities that are in a limited partnership structure.

Level III – For alternative investments, primarily private equity funds and hedge funds, fair value is estimated, as a practical expedient, by using the net asset value of the investment if the net asset value per share of the investment is calculated in a manner consistent with ASC Topic 946-10-15-2. For other assets in Level III, 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, 2016

(with summarized comparative financial information  
for the year ended June 30, 2015)

The following table summarizes the valuation of Pacific's investments by the ASC 820 fair value hierarchy as of June 30, 2016 (in thousands):

	<b>Quoted prices in active markets for identical assets (Level I)</b>	<b>Significant other observable inputs (Level II)</b>	<b>Significant unobservable inputs (Level III)</b>	<b>June 30, 2016</b>
Cash and cash equivalents	\$ 29,044	—	—	29,044
Times deposits	19,000	—	—	19,000
Long-duration government bonds	—	534	—	534
Long-duration bond mutual funds	49,668	—	—	49,668
Short-duration bond mutual funds	105,772	—	—	105,772
International bond funds	—	5,692	—	5,692
Global bond funds	—	5,883	—	5,883
U.S. equities	83,953	19,995	399	104,347
U.S. equities mutual funds	43,473	—	—	43,473
International equity funds	57,631	26,432	—	84,063
Private equity funds	—	—	28,505	28,505
Hedge funds	—	—	34,785	34,785
Real asset funds	—	15,904	—	15,904
Assets held by other trustees	—	—	1,670	1,670
Real and personal property	—	—	3,577	3,577
High yield credit	—	8,148	—	8,148
	<u>\$ 388,541</u>	<u>82,588</u>	<u>68,936</u>	<u>540,065</u>

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

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

Bond mutual funds, some international bond 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.

Corporate bonds, government bonds, global bond funds, and some international 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.

**UNIVERSITY OF THE PACIFIC**

Notes to Financial Statements

June 30, 2016

(with summarized comparative financial information  
for the year ended June 30, 2015)

The following table summarizes the valuation of Pacific's investments by the ASC 820 fair value hierarchy as of June 30, 2015 (in thousands):

	<b>Fair value measurement at June 30, 2015</b>			
	<b>Quoted prices in active markets for identical assets (Level I)</b>	<b>Significant other observable inputs (Level II)</b>	<b>Significant unobservable inputs (Level III)</b>	<b>June 30, 2015</b>
Cash and cash equivalents	\$ 19,369	—	—	19,369
Long-duration corporate bonds	22,013	37	—	22,050
Long-duration government bonds	—	646	—	646
Long-duration bond mutual funds	51,711	—	—	51,711
Short-duration bond mutual funds	118,986	—	—	118,986
International bond funds	—	5,822	—	5,822
Global bond funds	—	6,425	—	6,425
U.S. equities	123,010	7,549	378	130,937
U.S. equities mutual funds	48,846	—	—	48,846
International equities funds	60,671	18,664	—	79,335
Private equity funds	—	—	29,453	29,453
Hedge funds	—	—	35,966	35,966
Assets held by other trustees	—	—	1,708	1,708
Real and personal property	—	—	667	667
High yield	—	10,243	—	10,243
	<u>\$ 444,606</u>	<u>49,386</u>	<u>68,172</u>	<u>562,164</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, 2016

(with summarized comparative financial information  
for the year ended June 30, 2015)

The following table presents Pacific's activities for investments measured at fair value on a recurring basis using significant unobservable inputs (Level III) as defined in ASC 820 for the year ended June 30, 2016.

	<b>Fair value measurements using significant unobservable inputs (Level III)</b>			
	<b>U.S. equities and assets held by other trustees</b>	<b>Hedge funds and private equity funds</b>	<b>Real and personal property</b>	<b>Total</b>
Balance at June 30, 2015	\$ 2,086	65,419	667	68,172
Income and dividends	—	212	—	212
Realized and unrealized gains (losses) included in change in net assets	(17)	(2,383)	—	(2,400)
Purchases and issuances	—	3,982	—	3,982
Sales and settlements	—	(3,822)	—	(3,822)
Non cash contribution	—	—	2,910	2,910
Investment management fees	—	(118)	—	(118)
Balance at June 30, 2016	<u>\$ 2,069</u>	<u>63,290</u>	<u>3,577</u>	<u>68,936</u>
The amount of total losses for the period included in change in net assets attributable to the change in unrealized losses relating to investments still held at the reporting date	\$ (17)	(2,383)	—	(2,400)

## UNIVERSITY OF THE PACIFIC

### Notes to Financial Statements

June 30, 2016

(with summarized comparative financial information  
for the year ended June 30, 2015)

The following table presents those Level II and III investments measured at fair value using net asset value as a practical expedient.

	<u>Fair value</u>	<u>Unfunded commitments</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>
Private equity funds – global (a)	\$ 28,505	15,228	see note quarterly,	see note
Multistrategy hedge funds (b)	34,710	—	semi-annually monthly,	45–95 days
Equity long/short hedge funds (c)	75	—	quarterly	30–65 days
Real asset funds (d)	15,904	—	monthly	16-30 days
U.S. equities and assets held by other trustees (e)	2,069	—	see note	see note
Real and personal property (f)	3,577	—	see note	see note
International equity funds (g)	26,432	—	monthly	30 days
Global bond funds (h)	5,883	—	monthly	10 days
International bond funds (i)	5,692	—	monthly	60 days
High yield credit (j)	8,148	—	quarterly	60 days
Domestic Equity-mid cap growth (k)	19,995	—	monthly	5-30 days
Total	<u>\$ 150,990</u>	<u>15,228</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. As of June 30, 2016, it is probable that all of the investments in this category will be sold at an amount different from the net asset value of Pacific's ownership interest in partners' capital due to future market fluctuations. 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. The process for liquidating these investments is through the solicitation of buyers. As of June 30, 2016, a buyer (or buyers) for these investments has not yet been identified. Once a buyer has been identified, the investee fund's management must approve of the buyer before the sale of the investments can be completed.
- (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 or semiannually subject to the redemption notice period.

# UNIVERSITY OF THE PACIFIC

## Notes to Financial Statements

June 30, 2016

(with summarized comparative financial information  
for the year ended June 30, 2015)

- (c) 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. All investments in this category can be redeemed monthly or quarterly subject to the notice period.
- (d) 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.
- (e) Equities and assets held by others in Level III include a \$1,670 endowment fund gifted to Pacific for which the investments are managed by an outside trustee bank in perpetuity according to the donor's wishes. Because the endowment is to be invested in perpetuity, the funds may not be redeemed but distributions are made to the University to be allocated for scholarships. Other assets in this fund represent miscellaneous Level III securities included in domestic corporate stocks and bonds.
- (f) Real and personal property primarily includes an investment in an office building, farmland, and houses located in Northern and Central California.
- (g) 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 monthly.
- (h) 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.
- (i) This category includes investments in emerging market currencies or instruments whose value is derived from the performance of the underlying emerging market currency. The fund invests in debt instruments, which may include government agency and corporate obligations and structured notes denominated in emerging market currencies. 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.
- (j) This category includes investments in a multi-asset class, diversified portfolio consisting principally of below investment grade debt securities. The fund invests primarily in the following assets classes: (i) senior secured loans; (ii) public high yield securities; and (iii) private high yield debt. Management of the fund may also invest in other asset classes, including similar securities of foreign

**UNIVERSITY OF THE PACIFIC**

Notes to Financial Statements

June 30, 2016

(with summarized comparative financial information  
for the year ended June 30, 2015)

issuers. 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.

- (k) This category includes investments in domestic equity mid-cap securities with above-average earnings growth potential. The fund's initial investments are within the capitalization of the Russell Midcap Growth Index. 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.

Investments include approximately \$18,447,000 and \$16,759,000 held under split-interest trust agreements as of June 30, 2016 and 2015, respectively.

The following summarizes total investment return for endowed and nonendowed assets for the year ended June 30, 2016 and its classification in the statement of activities (in thousands):

	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily restricted</u>
Dividends and interest	\$ 9,136	3,523	5,613
Realized and unrealized losses on investments	(16,904)	(1,777)	(15,127)
Total investment (loss) return, net	<u>\$ (7,768)</u>	<u>1,746</u>	<u>(9,514)</u>
Investment return distributed	\$ 17,101	4,105	12,996
Investment (loss) return, net of distributions	(24,869)	(2,359)	(22,510)
Total investment (loss) return, net	<u>\$ (7,768)</u>	<u>1,746</u>	<u>(9,514)</u>

The following summarizes total investment return for endowed and nonendowed assets for the year ended June 30, 2015 and its classification in the statement of activities (in thousands):

	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily restricted</u>
Dividends and interest	\$ 11,391	7,025	4,366
Realized and unrealized gains and (losses) on investments	(173)	(2,279)	2,106
Total investment return, net	<u>\$ 11,218</u>	<u>4,746</u>	<u>6,472</u>
Investment return distributed	\$ 10,139	7,494	2,645
Investment (loss) return, net of distributions	1,079	(2,748)	3,827
Total investment return, net	<u>\$ 11,218</u>	<u>4,746</u>	<u>6,472</u>

# UNIVERSITY OF THE PACIFIC

## Notes to Financial Statements

June 30, 2016

(with summarized comparative financial information  
for the year ended June 30, 2015)

### (4) Endowments

In accordance with the California Prudent Management of Institutional Funds Act (CPMIFA), Pacific classifies as permanently restricted net assets: (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) 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. The portion of the donor-restricted endowment fund not classified in permanently restricted net assets is classified as temporarily restricted net assets to the extent of available accumulated income and gains and losses. Temporarily restricted net assets on endowed funds are then 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 classified as temporarily restricted 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, 2016, 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 permanently donor-restricted endowment funds were included in the total endowment at June 30, 2016, 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.

Effective for fiscal years beginning July 1, 2010 and thereafter, 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.

**UNIVERSITY OF THE PACIFIC**

Notes to Financial Statements

June 30, 2016

(with summarized comparative financial information  
for the year ended June 30, 2015)

Endowment net asset composition by type of fund as of June 30, 2016 (in thousands):

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (606)	53,762	296,289	349,445
Board-designated endowment funds	25,799	—	—	25,799
Total funds	\$ <u>25,193</u>	<u>53,762</u>	<u>296,289</u>	<u>375,244</u>

Endowment net asset composition by type and fund as of June 30, 2015 (in thousands):

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (29)	77,589	286,594	364,154
Board-designated endowment funds	26,471	—	—	26,471
Total funds	\$ <u>26,442</u>	<u>77,589</u>	<u>286,594</u>	<u>390,625</u>

**UNIVERSITY OF THE PACIFIC**

Notes to Financial Statements

June 30, 2016

(with summarized comparative financial information  
for the year ended June 30, 2015)

Changes in endowment net assets were as follows for the year ended June 30, 2016 (in thousands):

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Invested and other endowment assets beginning of year	\$ 26,442	77,589	297,394	401,425
Less pledge and trust assets, net	<u>—</u>	<u>—</u>	<u>(10,800)</u>	<u>(10,800)</u>
Invested endowment assets, beginning of year	<u>26,442</u>	<u>77,589</u>	<u>286,594</u>	<u>390,625</u>
Investment return:				
Dividends and interest	291	3,066	—	3,357
Realized and unrealized gains and (losses) net	<u>(195)</u>	<u>(14,072)</u>	<u>—</u>	<u>(14,267)</u>
Total investment (loss) return	96	(11,006)	—	(10,910)
Contributions	—	—	9,515	9,515
Spending policy distributed	(1,402)	(12,812)	—	(14,214)
Transfers into endowment	<u>57</u>	<u>(9)</u>	<u>180</u>	<u>228</u>
Endowment net assets, end of year	<u>\$ 25,193</u>	<u>53,762</u>	296,289	<u>375,244</u>
Other permanently restricted net assets:				
Trust and annuities			7,175	
Pledges			<u>6,328</u>	
Total invested and other endowment assets			<u>\$ 309,792</u>	

**UNIVERSITY OF THE PACIFIC**

Notes to Financial Statements

June 30, 2016

(with summarized comparative financial information  
for the year ended June 30, 2015)

Changes in endowment net assets were as follows for the year ended June 30, 2015 (in thousands):

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Invested and other endowment assets beginning of year	\$ 26,430	83,646	280,296	390,372
Less pledge and trust assets, net	<u>—</u>	<u>—</u>	<u>(3,759)</u>	<u>(3,759)</u>
Invested endowment assets, beginning of year	<u>26,430</u>	<u>83,646</u>	<u>276,537</u>	<u>386,613</u>
Investment return:				
Dividends and interest	258	4,366	—	4,624
Realized and unrealized gains and (losses) net	<u>314</u>	<u>2,036</u>		<u>2,350</u>
Total investment return	572	6,402	—	6,974
Contributions	20	—	6,728	6,748
Spending policy distributed	(919)	(12,738)	—	(13,657)
Transfers into endowment	49	—	1,949	1,998
Other changes, net	<u>290</u>	<u>279</u>	<u>1,380</u>	<u>1,949</u>
Endowment net assets, end of year	\$ <u><u>26,442</u></u>	<u><u>77,589</u></u>	286,594	<u><u>390,625</u></u>
Other permanently restricted net assets:				
Trust and annuities			4,365	
Pledges			<u>6,435</u>	
Total invested and other endowment assets			\$ <u><u>297,394</u></u>	

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the permanently restricted portion of the fund. Deficiencies of this nature reported in unrestricted net assets were \$606,000 and \$29,000 as of June 30, 2016 and June 30, 2015, respectively. These cumulative deficiencies resulted from unfavorable market fluctuations.

Professional fees for management of the pooled investments are recorded against investment returns and amounted to approximately \$2,227,000 and \$1,796,000 for the years ended June 30, 2016 and 2015, respectively.

**UNIVERSITY OF THE PACIFIC**

Notes to Financial Statements

June 30, 2016

(with summarized comparative financial information  
for the year ended June 30, 2015)

**(5) Fixed Assets**

Fixed assets as of June 30, 2016 and 2015 consist of (in thousands):

	<b>2016</b>	<b>2015</b>
Land	\$ 6,263	6,263
Buildings	452,103	447,638
Equipment	61,825	56,202
Library books and collections	45,897	49,291
Construction in progress	4,073	6,164
Improvements other than buildings	17,037	13,047
	587,198	578,605
Less accumulated depreciation	(219,254)	(197,714)
Total fixed assets, net	\$ 367,944	380,891

**(6) Notes and Bonds Payable**

Notes and bonds payable as of June 30, 2016 and 2015 consist of (in thousands):

	<b>2016</b>	<b>2015</b>
Bonds payable:		
California Educational Facilities Authority (CEFA)		
Project Revenue Bonds:		
Series 2004, 3.500–5.250%, due 2005 to 2034	\$ —	5,900
Series 2006, 4.750–5.000%, due 2007 to 2036	—	67,420
Series 2009, 4.000–5.500%, due 2010 to 2039	12,310	12,595
Series 2012A, 2.000–4.500%, due 2012 to 2042	31,305	32,545
Series 2014, 2.37%, due 2014 to 2034	26,385	35,065
Series 2015, 2.000–5.000%, due 2015 to 2036	66,275	—
	136,275	153,525
Unamortized premium on bonds	9,706	3,283
Total bonds payable	145,981	156,808
Notes payable:		
JPMC Term Loan, 3.13%, due 2014 to 2024	16,070	17,810
Total notes and bonds payable	\$ 162,051	174,618

**UNIVERSITY OF THE PACIFIC**

Notes to Financial Statements

June 30, 2016

(with summarized comparative financial information  
for the year ended June 30, 2015)

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

	<u>Bonds</u>	<u>Notes</u>	<u>Total</u>
Year ending June 30:			
2017	\$ 4,785	1,795	6,580
2018	4,950	1,853	6,803
2019	5,140	1,912	7,052
2020	5,340	1,972	7,312
2021	23,995	8,538	32,533
Thereafter	92,065	—	92,065
	<u>\$ 136,275</u>	<u>16,070</u>	<u>152,345</u>

Sinking fund requirements on CEFA Revenue Bonds, Series 2012A and Series 2015, are as follows (in thousands):

	<u>Long-term debt</u>
Year ending June 30, 2016:	
2024	\$ 1,205
2025	1,265
2026	1,325
2027	1,395
2028	1,470
Thereafter	25,820
	<u>\$ 32,480</u>

***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 stated interest rate of 2.37% that are fixed under an initial rate period until June 22, 2021. Subsequent to this initial rate

# UNIVERSITY OF THE PACIFIC

## Notes to Financial Statements

June 30, 2016

(with summarized comparative financial information  
for the year ended June 30, 2015)

period, the bonds are convertible to one of several different fixed or variable interest rate options based on market conditions at that time. The bonds are subject to annual principal and interest payments since 2014.

In January 2012, Pacific issued CEFA Revenue Bonds, Series 2012A in the amount of \$35,435,000 with premium of \$2,552,510. Such bonds are payable in varying annual installments through 2042 with interest paid semiannually at rates ranging from 2.00% – 4.50%. After original issue premium and costs of issuance, net proceeds of \$8,575,978 were deposited into an irrevocable trust for the purpose of funding payments of principal and interest on Pacific's Series 1998 Bonds; \$12,503,754 was deposited into an irrevocable trust for the purpose of funding payments of principal and interest on Pacific's Series 2000 Bonds and \$15,500,302 was utilized to finance a portion of the acquisition and renovation of an office building in San Francisco that will be the home of the University's San Francisco campus, which includes the University's Dugoni School of Dentistry.

In May 2009, Pacific issued CEFA Revenue Bonds, Series 2009 in the amount of \$15,000,000. Such bonds are payable in varying annual installments through 2039 with interest paid semiannually at rates ranging from 4.00% – 5.50%. After original discount and costs of issuance, net proceeds of \$14,636,023 were utilized for facility and equipment upgrades and renovations.

### *JPMorgan Chase Term Loan*

In June 2014, Pacific entered into a taxable Loan Agreement with JPMorgan Chase in the amount of \$19,500,000 with final maturity of 2024. 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 has principal and interest payable semi-annually with a stated interest rate of 3.13% that is fixed under an initial rate period until June 22, 2021.

### **(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, 2016 and 2015 was approximately \$12,957,000 and \$12,430,000, 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.

**UNIVERSITY OF THE PACIFIC**

Notes to Financial Statements

June 30, 2016

(with summarized comparative financial information  
for the year ended June 30, 2015)

**(9) Fair Value of Financial Instruments**

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

**(a) *Cash and Cash Equivalents, Estate Gift Receivable, Accounts Payable and Accrued Liabilities, Inventories, Prepaid Expenses and Other Assets, Advance Deposits and Deferred Revenue***

The carrying amount approximates fair value, based on the short maturity of those instruments.

**(b) *Student Loans Receivable and Federal Student Loan Funds***

The fair value of student loans receivable and federal student loan funds approximates their carrying value, based on current comparable loan rates.

**(c) *Investments***

The fair value of investments is estimated according to FASB ASC 820, as outlined in note 3.

**(d) *Notes and Bonds Payable***

The fair value of Pacific's long-term debt is estimated based on the current rates available to Pacific for debt of the same remaining maturities. As of June 30, 2016 and 2015, the fair value of Pacific's notes and bonds approximates \$171,600,000 and \$176,400,000, respectively.

**(e) *Pledges Receivable***

The carrying amounts approximate fair value because of the short term nature of the instruments as well as the discounting to present value of the estimated future cash flows.

**(f) *Trust and Annuities***

The carrying amount of annuity and trust obligations approximates fair value as the investments are recorded at the estimated net present value of future cash flows.

**(g) *Asset Retirement Obligation***

The fair value of the asset retirement obligation is estimated according to *FASB ASC 410*.

**UNIVERSITY OF THE PACIFIC**

Notes to Financial Statements

June 30, 2016

(with summarized comparative financial information  
for the year ended June 30, 2015)

**(10) Leases**

Pacific is obligated under various capital leases for equipment that expires at various dates during the next five years. As of June 30, 2016 and 2015, the gross amount of equipment recorded under capital leases was as follows (in thousands):

	<b>2016</b>	<b>2015</b>
Equipment	\$ 12,027	10,670
Less accumulated amortization	(9,579)	(8,489)
	<b>\$ 2,448</b>	<b>2,181</b>

Future minimum capital lease payments as of June 30, 2016 are as follows (in thousands):

	<b>Capital leases</b>
Fiscal year ending June 30:	
2017	\$ 925
2018	466
2019	289
2020	24
2021	17
Total minimum lease payments	1,721
Less amounts representing interest	(57)
Present value of net minimum capital lease payments	<b>\$ 1,664</b>

**UNIVERSITY OF THE PACIFIC**

Notes to Financial Statements

June 30, 2016

(with summarized comparative financial information  
for the year ended June 30, 2015)

**(11) Composition of Net Assets**

The composition of the categories of net assets as of June 30, 2016 and 2015 consists of (in thousands):

	<b>2016</b>	<b>2015</b>
Unrestricted net assets:		
Undesignated net assets	\$ 17,718	15,128
Designated for specific purposes	94,320	105,245
Quasi-endowment	25,799	26,471
Accumulated net losses on permanently restricted endowed funds	(606)	(29)
Investment in fixed assets, net of long-term debt	205,893	204,612
	343,124	351,427
Temporarily restricted net assets:		
Accumulated investment return on permanently restricted endowed funds	53,762	77,589
Amounts restricted by donors for programs	944	1,698
Amounts restricted by donors for investment in plant	3,173	4,346
Pledges receivable for programs	3,277	3,620
Pledges receivable for investment in plant	7,349	10,048
	68,505	97,301
Permanently restricted net assets:		
Permanent endowment	296,289	286,594
Pledges	6,328	6,435
Trusts and annuities	7,175	4,365
	309,792	297,394
	\$ 721,421	746,122

**(12) Related-Party Transactions**

Included in revenues for the years ended June 30, 2016 and 2015 are contributions from Board of Regents members totaling \$2,267,802 and \$979,391, respectively. In addition, pledge payments totaling \$1,119,051 and \$1,447,718 were received from Board of Regents members during the years ended June 30, 2016 and 2015, respectively.

Pledges include promises to give from members of the Board of Regents. As of June 30, 2016 and 2015, the net present value of Board of Regents' pledges outstanding totaled approximately \$5,086,375 and \$9,723,866, respectively.

# UNIVERSITY OF THE PACIFIC

## Notes to Financial Statements

June 30, 2016

(with summarized comparative financial information  
for the year ended June 30, 2015)

### **(13) Subsequent Events**

Pacific has evaluated its subsequent events through November 7, 2016, the date the financial statements were issued.

In October 2016, Pacific issued California Municipal Finance Authority (CMFA) Revenue Bonds, Series 2016, in the amount of \$33,120,000 with premium of \$3,584,279. The bonds are payable in varying installments through 2048 with interest paid semiannually at rates ranging from 4.0% to 5.0%. After original issue premium and costs of issuance, net of proceeds of \$34,000,000 will be used to finance the Upper Division Housing Project that includes two four-story residence halls on the Stockton campus.



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  
The 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 the University of the Pacific, which comprise the balance sheet as of June 30, 2016, and the related statements 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 7, 2016.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered University of the Pacific's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of University of the Pacific's internal control. Accordingly, we do not express an opinion on the effectiveness of University of the Pacific'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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

**Compliance and Other Matters**

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



**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of University of the Pacific'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 University of the Pacific's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Sacramento, California  
November 7, 2016