



University of the Pacific Financial Statements



June 30, 2021

(with summarized comparative financial
information for the year-ended June 30, 2020)

(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	6–30
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
Suite 700
20 Pacifica
Irvine, CA 92618-3391

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, 2021, 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, 2021, 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 the Pacific's 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 6, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020 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 10, 2021 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

Irvine, California
November 10, 2021

UNIVERSITY OF THE PACIFIC

Balance Sheet

June 30, 2021

(with comparative financial information
as of June 30, 2020)

(In thousands)

Assets	2021	2020
Cash and cash equivalents	\$ 23,774	7,680
Accounts receivable, net	17,355	12,568
Pledges receivable, net	8,843	9,633
Inventories, prepaid expenses, and other assets	11,481	7,432
Student loans receivable, net	21,340	24,188
Investments	880,789	693,269
Fixed assets, net	367,953	379,620
Total assets	<u>\$ 1,331,535</u>	<u>1,134,390</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities	\$ 28,960	28,452
Advance deposits and deferred revenue	19,870	22,413
Self-insurance and early retirement reserves	12,183	10,741
Lease obligations	4,410	622
Asset retirement obligation	8,739	9,681
Notes and bonds payable	150,705	162,884
Trust and annuity obligations	10,346	9,892
Federal student loan funds	22,088	32,800
Total liabilities	<u>257,301</u>	<u>277,485</u>
Net assets:		
Without donor restrictions	431,205	379,330
With donor restrictions	643,029	477,575
Total net assets	<u>1,074,234</u>	<u>856,905</u>
Total liabilities and net assets	<u>\$ 1,331,535</u>	<u>1,134,390</u>

See accompanying notes to financial statements.

UNIVERSITY OF THE PACIFIC

Statement of Activities

June 30, 2021

(with summarized financial information
as of June 30, 2020)

(In thousands)

	2021			2020
	Without donor restrictions	With donor restrictions	Total	Total
Revenues, gains, and other support:				
Tuition and student fees				
(Includes student financial aid of \$109,088 and \$98,832 in 2021 and 2020, respectively)	237,776	—	237,776	243,776
Sales and services of auxiliary enterprises	6,663	—	6,663	24,169
Government grants and contracts	27,612	—	27,612	11,254
Private grants, gifts, and bequests	9,709	9,695	19,404	17,507
Investment return distributed	1,243	17,121	18,364	17,076
Clinic fees	13,637	—	13,637	11,843
Other	9,164	—	9,164	15,108
Total revenues and gains	305,804	26,816	332,620	340,733
Reclassifications:				
Net assets released from restrictions	17,121	(17,121)	—	—
Total revenues, gains, and reclassifications	322,925	9,695	332,620	340,733
Expenses:				
Instructional and departmental research	177,160	—	177,160	179,723
Auxiliary enterprises	7,659	—	7,659	16,101
Sponsored programs	14,979	—	14,979	15,253
Academic support	40,779	—	40,779	36,764
Student services	45,573	—	45,573	48,870
General administration	3,812	—	3,812	9,402
Public Service	199	—	199	—
Fundraising	3,017	—	3,017	13,357
Total expenses	293,178	—	293,178	319,470
Increase in net assets from operations before other changes	29,747	9,695	39,442	21,263
Other changes:				
Investment return (loss), net of distributions	13,977	156,515	170,492	(10,708)
Actuarial gain on annuity and trust obligations	—	1,009	1,009	186
Gain on legal settlement	—	—	—	26,089
Other changes	8,151	(1,765)	6,386	(1,028)
Change in net assets	51,875	165,454	217,329	35,802
Net assets, beginning of year	379,330	477,575	856,905	821,103
Net assets, end of year	\$ 431,205	643,029	1,074,234	856,905

See accompanying notes to financial statements.

UNIVERSITY OF THE PACIFIC

Statement of Cash Flows

Year ended June 30, 2021
(with comparative financial information
for the year ended June 30, 2020)

(In thousands)

	2021	2020
Cash flows from operating activities:		
Change in net assets	\$ 217,329	35,802
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	20,004	20,720
Noncash contributions	(942)	(46)
Noncash asset retirement provision	(943)	294
Actuarial gain on annuity and trust obligations	(1,009)	(184)
Net realized and unrealized (gains) losses on investments	(179,205)	2,536
Contributions restricted for purchasing capital assets	(2,042)	76
Contributions restricted for long-term investment	(6,648)	(11,133)
Other noncash items	1,834	225
Changes in assets and liabilities:		
Accounts receivable	(4,787)	(2,979)
Pledges receivable	790	1,606
Inventories, prepaid expenses, and other assets	(4,049)	(115)
Accounts payable and accrued liabilities	508	(4,084)
Advance deposits and deferred revenue	(2,543)	1,633
Self-insurance and early retirement reserves	1,442	(710)
Lease obligations	3,926	—
Federal student loan funds	(10,712)	319
Net cash provided by operating activities	32,953	43,960
Cash flows from investing activities:		
Proceeds from sale of investments	675,357	810,750
Purchase of investments	(681,654)	(855,927)
Purchase of fixed assets	(7,888)	(17,384)
Proceeds from student loan collections	4,839	5,528
Student loans issued	(1,991)	(2,611)
Net cash used in investing activities	(11,337)	(59,644)
Cash flows from financing activities:		
Contributions restricted for purchasing capital assets	2,042	(76)
Contributions restricted for long-term investment	6,648	11,133
Trust and annuity obligations	(11)	(355)
Payment on notes payable, bonds payable, and finance leases	(14,201)	(9,074)
Net cash provided by (used in) financing activities	(5,522)	1,628
Net change in cash and cash equivalents	16,094	(14,056)
Cash and cash equivalents, beginning of year	7,680	21,736
Cash and cash equivalents, end of year	\$ 23,774	7,680
Supplemental disclosure of cash flow information:		
Interest paid	\$ 6,167	6,549
Supplemental disclosure of noncash investing and financing activities:		
Equipment acquired under finance leases	459	544
Contributed securities	1,130	1,293
Debt refinancing	36,860	—

See accompanying notes to financial statements.

UNIVERSITY OF THE PACIFIC

Notes to Financial Statements

June 30, 2021

(with summarized comparative financial information
for the year ended June 30, 2020)

(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 6,200+ 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, 2021

(with summarized comparative financial information
for the year ended June 30, 2020)

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.

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, 2021 included \$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, 2021, Pacific's cash of \$16,874,952 included \$16,425,263 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.

(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.

UNIVERSITY OF THE PACIFIC
Notes to Financial Statements
June 30, 2021
(with summarized comparative financial information
for the year ended June 30, 2020)

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. Losses on investments of donor-restricted endowment funds are classified as decreases in net assets with donor restrictions to the extent that they exist. Subsequent gains that restore the fair value of donor-restricted endowments to required levels are recorded as increases in net assets without donor restrictions.

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.

(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

UNIVERSITY OF THE PACIFIC

Notes to Financial Statements

June 30, 2021

(with summarized comparative financial information
for the year ended June 30, 2020)

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. Pacific has capitalized its collections since its inception and 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, 2021.

(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.

(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.

UNIVERSITY OF THE PACIFIC
Notes to Financial Statements
June 30, 2021
(with summarized comparative financial information
for the year ended June 30, 2020)

(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, 2020, 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) Leases

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. This guidance requires lessees to recognize leases on the balance sheet and disclose key information about leasing arrangements. Topic 842 establishes a right of use model that requires a lessee to recognize a right of use asset and lease liability on the balance sheet for all leases, including operating leases, with a term longer than 12 months. Leases are classified as finance (formerly referred to as capital leases) or operating, with classification affecting the pattern and classification of expense recognition in the statement of activities.

The ASUs issued in 2018 and 2019 for Topic 842 are effective for the University at the same time as it adopts ASU 2016-02. However, ASU 2018-01 and the amendments related to lessors in ASU 2018-11 and ASU 2019-01 did not have a material effect on the University's 2021 and 2020 consolidated financial statements because the University does not enter into land easement arrangements and it is not a lessor. The University elected to adopt ASU 2016-02 on July 1, 2020 using a modified retrospective transition approach as of the effective date as permitted by the amendments in ASU 2018-11. As a result, the University was not required to adjust its comparative period financial information for effects of the standard or make the new required lease disclosures for periods before the date of adoption.

UNIVERSITY OF THE PACIFIC

Notes to Financial Statements

June 30, 2021

(with summarized comparative financial information
for the year ended June 30, 2020)

The adoption of ASU 2016-02 did not materially affect the University's statement of activities, and the most significant change to the balance sheet relates to the recognition of new right of use assets and lease liabilities for operating leases. The University's accounting for finance leases remains substantially unchanged. The adoption of ASU 2016-02 also had no material effect on operating, investing, or financing cash flows in the consolidated statement of cash flows. Additionally, the University's lease-related disclosures have significantly increased as of and for the year ended June 30, 2021 as compared to prior years. See Note 10.

As a result of adopting ASU 2016-02, the University recognized additional operating liabilities of \$3,926,000 with corresponding ROU assets of the same amount as of June 30, 2021.

(r) *Liquidity and Availability*

The following table reflects the University's financial assets as of June 30, 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>2021</u>	<u>2020</u>
Total assets at year end	\$ 1,331,535	1,134,390
Less:		
Receivables collectable in more than one year	(2,150)	(2,096)
Pledges receivable collectable in more than one year	(6,192)	(5,063)
Donor-restricted endowment funds	(583,453)	(425,299)
Annuities and living trusts	(5,190)	(4,181)
Inventories, prepaid expenses and other assets	(11,481)	(7,432)
Board-designated endowment funds	(41,690)	(30,501)
Property, plant, and equipment	<u>(367,953)</u>	<u>(379,620)</u>
Financial assets available at year end for current use	313,426	280,198
Line of Credit	<u>20,000</u>	<u>—</u>
Financial assets and other resources available for use within one year	\$ <u><u>333,426</u></u>	<u><u>280,198</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.

UNIVERSITY OF THE PACIFIC

Notes to Financial Statements

June 30, 2021

(with summarized comparative financial information
for the year ended June 30, 2020)

(s) Current Environment

In March 2020, the World Health Organization declared the novel coronavirus (COVID-19) a pandemic. Commencing March, 2020, undergraduate and graduate course instruction was conducted virtually and most students vacated the campus. Students continued to meet their academic requirements for the remainder of the 2020-21 academic year. In addition, the start of 2021-22 academic year has reverted to an on campus instruction learning environment. The COVID-19 pandemic has negatively affected national, state, and local economies and global financial markets, and the higher education landscape in general. While the total financial impact on the University cannot be quantified at this time, the pandemic may have a one-time material adverse effect on the current and future financial profile and operating performance of the University. The University continues to monitor the course of the pandemic and is prepared to take additional measures to protect the health of the University community and promote the continuity of its academic mission.

(2) Receivables

(a) Accounts Receivable

Accounts receivable as of June 30, 2021 and 2020 are without collateral and consist of (in thousands):

	<u>2021</u>	<u>2020</u>
Student accounts	\$ 6,142	7,799
Clinic	2,164	1,366
Government contracts and other	<u>10,401</u>	<u>4,756</u>
Total	18,707	13,921
Less allowance for doubtful accounts	<u>(1,352)</u>	<u>(1,353)</u>
Accounts receivable, net	<u>\$ 17,355</u>	<u>12,568</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.

UNIVERSITY OF THE PACIFIC
Notes to Financial Statements
June 30, 2021
(with summarized comparative financial information
for the year ended June 30, 2020)

Student loans receivable as of June 30, 2021 and 2020 consist of (in thousands):

	<u>2021</u>	<u>2020</u>
Federal government programs	\$ 19,676	22,247
Institutional programs	<u>2,564</u>	<u>2,841</u>
Total	22,240	25,088
Less allowance for doubtful loans	<u>(900)</u>	<u>(900)</u>
Student loans receivable, net	<u><u>\$ 21,340</u></u>	<u><u>24,188</u></u>

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 \$22.1 million and \$32.8 million at June 30, 2021 and 2020, 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, 2021 and 2020, 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, 2021	\$ 242,995	212,333	2,454,652	2,909,980
June 30, 2020	\$ 404,739	187,443	2,385,298	2,977,480

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.

UNIVERSITY OF THE PACIFIC
Notes to Financial Statements
June 30, 2021
(with summarized comparative financial information
for the year ended June 30, 2020)

(c) Pledges Receivable

Pledges receivable as of June 30, 2021 and 2020 consist of (in thousands):

	<u>2021</u>	<u>2020</u>
Pledges to be collected:		
In one year or less	\$ 6,574	10,549
Between one year and five years	4,933	4,208
In more than five years	<u>1,259</u>	<u>855</u>
Total Pledges	12,766	15,612
Less:		
Allowance for nonfulfillment	(3,747)	(5,652)
Discount to present value at .02% to 5.07%	<u>(176)</u>	<u>(327)</u>
Pledges receivable, net	<u>\$ 8,843</u>	<u>9,633</u>

Pledges receivable as of June 30, 2021 and 2020 will, when collected, have the following restrictions (in thousands):

	<u>2021</u>	<u>2020</u>
Endowment with earnings expendable for departmental programs and activities	\$ 2,436	1,792
Endowments with earnings expendable for scholarships	3,667	3,334
Building construction	1,182	1,911
Departmental programs and activities	<u>1,558</u>	<u>2,596</u>
	<u>\$ 8,843</u>	<u>9,633</u>

(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.

UNIVERSITY OF THE PACIFIC

Notes to Financial Statements

June 30, 2021

(with summarized comparative financial information
for the year ended June 30, 2020)

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. For financial statement presentation purposes, there are assets that fall under the NAV asset category.

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.

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):

	Fair value measurement at June 30, 2021				
	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	June 30, 2021
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>

UNIVERSITY OF THE PACIFIC
Notes to Financial Statements
June 30, 2021
(with summarized comparative financial information
for the year ended June 30, 2020)

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.

Government bonds and 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, 2020 (in thousands):

	Fair value measurement at June 30, 2020				
	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	June 30, 2020
Cash and cash equivalents	\$ 212,156	—	—	—	212,156
Time deposits	4,000	—	—	—	4,000
Long-duration government bonds	—	2,529	—	—	2,529
Long-duration bond mutual funds	56,145	—	—	—	56,145
Short-duration bond mutual funds	15,458	—	—	—	15,458
Global bond funds	—	—	—	5,246	5,246
U.S. equities	66,193	—	550	47,883	114,626
U.S. equities mutual funds	25,414	—	—	—	25,414
International equities funds	37,681	—	—	65,391	103,072
Private equity funds	—	—	—	67,174	67,174
Hedge funds	—	—	352	67,718	68,070
Real asset funds	—	—	—	15,696	15,696
Assets held by other trustees	—	—	1,827	—	1,827
Real and personal property	—	—	1,856	—	1,856
	<u>\$ 417,047</u>	<u>2,529</u>	<u>4,585</u>	<u>269,108</u>	<u>693,269</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, 2021

(with summarized comparative financial information
for the year ended June 30, 2020)

The following table presents investments with applicable funding commitments, redemption, and restrictions as of June 30, 2021 (in thousands):

	<u>Fair value</u>	<u>Unfunded commitments</u>	<u>Redemption frequency</u>	<u>Redemption notice period</u>
Private equity funds (a)	\$ 111,382	70,715	See note	See note
Multistrategy hedge funds (b)	17,202	—	Quarterly, semi-annually	45–95 days
Event-driven hedge funds (c)	25,358	—	Quarterly, annually	65–90 days
Equity long/short hedge funds (d)	47,612	—	Quarterly, semi-annually, annually	30–65 days
Real asset funds (e)	19,727	—	Monthly	16–30 days
U.S. equities and assets held by other trustees (f)	2,918	—	See note	See note
Real and personal property (g)	2,703	—	See note	See note
International equities funds (h)	87,201	—	Monthly	30 days
Global bond funds (i)	5,909	—	Monthly	10–30 days
Domestic Equity – Multi-Cap & Multi-Strategy (j)	57,192	—	Monthly	10–30 days
Total	<u>\$ 377,204</u>	<u>70,715</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, 2021, 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. 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, 2021, 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 and semiannually subject to the redemption notice period.
- (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

UNIVERSITY OF THE PACIFIC

Notes to Financial Statements

June 30, 2021

(with summarized comparative financial information
for the year ended June 30, 2020)

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, semiannual, 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) Equities and assets held by others in Level III include a \$2,118,000 endowment fund gifted to Pacific for which the investments are managed by an outside trustee bank in perpetuity according to the donor's stipulations. 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.
- (g) Real and personal property primarily includes an investment in an office building, farmland, and houses located in Northern and Central California.
- (h) 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.
- (i) 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.
- (j) 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.

UNIVERSITY OF THE PACIFIC

Notes to Financial Statements

June 30, 2021

(with summarized comparative financial information
for the year ended June 30, 2020)

Investments include approximately \$17,791,000 and \$15,943,000 held under split-interest trust agreements as of June 30, 2021 and 2020, respectively. Bond and note proceeds included in investments and designated for construction and equipment financing were \$1,435,265 as of June 30, 2021 and \$2,528,770 as of June 30, 2020.

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):

	Without donor restrictions	With donor restrictions	Total
Dividends and interest	\$ 3,098	6,553	9,651
Realized and unrealized gains/(losses) on investments, net	12,122	167,083	179,205
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	13,977	156,515	170,492
Total investment return, net	<u>\$ 15,220</u>	<u>173,636</u>	<u>188,856</u>

The following summarizes total investment return for endowed and non-endowed assets for the year ended June 30, 2020 and its classification in the statement of activities (in thousands):

	Without donor restrictions	With donor restrictions	Total
Dividends and interest	\$ 3,261	5,643	8,904
Realized and unrealized gains/(losses) on investments, net	260	(2,796)	(2,536)
Total investment return, net	<u>\$ 3,521</u>	<u>2,847</u>	<u>6,368</u>
Investment return distributed	\$ 1,205	15,871	17,076
Investment return, net of distributions	2,316	(13,024)	(10,708)
Total investment return, net	<u>\$ 3,521</u>	<u>2,847</u>	<u>6,368</u>

UNIVERSITY OF THE PACIFIC

Notes to Financial Statements

June 30, 2021

(with summarized comparative financial information
for the year ended June 30, 2020)

(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 in the net asset category, as well as endowed funds that are 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, 2021, 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, 2021, 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.

UNIVERSITY OF THE PACIFIC
Notes to Financial Statements
June 30, 2021
(with summarized comparative financial information
for the year ended June 30, 2020)

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

	Without donor restrictions	With donor restrictions	Total
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>

Endowment net asset composition by type and fund as of June 30, 2020 (in thousands):

	Without donor restrictions	With donor restrictions	Total
Board-designated endowment funds	\$ 30,501	—	30,501
Donor-restricted endowment funds:			
Accumulated investments gains	—	77,209	77,209
Original donor-restricted gift amount	—	348,090	348,090
Total funds	\$ <u>30,501</u>	<u>425,299</u>	<u>455,800</u>

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

	Without donor restrictions	With donor restrictions	Total
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 (losses), net	11,745	166,640	178,385
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	570	(1,973)	(1,403)
Endowment net assets, end of year	\$ <u>41,690</u>	<u>583,453</u>	<u>625,143</u>

UNIVERSITY OF THE PACIFIC
Notes to Financial Statements
June 30, 2021
(with summarized comparative financial information
for the year ended June 30, 2020)

Changes in endowment net assets were as follows for the year ended June 30, 2020 (in thousands):

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Invested endowment assets, beginning of year	\$ 31,735	431,578	463,313
Investment return:			
Dividends and interest	110	1,903	2,013
Realized and unrealized gains (losses), net	<u>(139)</u>	<u>(3,444)</u>	<u>(3,583)</u>
Total investment return	(29)	(1,541)	(1,570)
Contributions	—	11,122	11,122
Spending policy distributed	(1,205)	(15,871)	(17,076)
Transfers into endowment	<u>—</u>	<u>11</u>	<u>11</u>
Endowment net assets, end of year	<u>\$ 30,501</u>	<u>425,299</u>	<u>455,800</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 \$226, related to one endowment fund, and \$415,000, related to 135 endowment funds, as of June 30, 2021 and June 30, 2020, respectively. These cumulative deficiencies resulted from unfavorable market fluctuations.

(5) Fixed Assets

Fixed assets as of June 30, 2021 and 2020 consist of (in thousands):

	<u>2021</u>	<u>2020</u>
Land	\$ 6,263	6,263
Buildings	496,314	496,200
Equipment	68,326	66,673
Library books and collections	58,112	57,771
Construction in progress	8,552	5,851
Improvements other than buildings	<u>41,425</u>	<u>39,296</u>
	678,992	672,054
Less accumulated depreciation	<u>(311,039)</u>	<u>(292,434)</u>
Total fixed assets, net	<u>\$ 367,953</u>	<u>379,620</u>

UNIVERSITY OF THE PACIFIC
Notes to Financial Statements
June 30, 2021
(with summarized comparative financial information
for the year ended June 30, 2020)

(6) Notes and Bonds Payable

Notes and bonds payable as of June 30, 2021 and 2020 consist of (in thousands):

	<u>2021</u>	<u>2020</u>
California Educational Facilities Authority (CEFA):		
Project Revenue Bonds:		
Series 2009, 4.000–5.500%, due 2021 to 2039	\$ —	11,055
Series 2012A, 2.000–4.500%, due 2021 to 2042	24,360	25,855
Series 2014, 2.37%, due 2021 to 2034	13,825	15,955
Series 2015, 2.000–5.000%, due 2021 to 2036	57,010	59,055
California Municipal Finance Authority (CMFA):		
Project Revenue Bonds:		
Series 2016, 4.000–5.000%, due 2021 to 2048	—	32,600
Series 2020A, 3.000–5.000%, due 2021 to 2048	36,860	—
	132,055	144,520
Unamortized premium on bonds	13,004	11,058
Bond issue costs (net)	(1,752)	(1,232)
Total bonds payable	143,307	154,346
Notes payable:		
JPMC Term Loan, 3.13%, due 2027	7,398	8,538
Total notes and bonds payable	\$ <u>150,705</u>	<u>162,884</u>

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

	<u>Bonds</u>	<u>Notes</u>	<u>Total</u>
Year ending June 30:			
2022	\$ 6,750	1,140	7,890
2023	6,950	1,140	8,090
2024	7,170	1,140	8,310
2025	7,510	1,140	8,650
2026	7,760	1,140	8,900
Thereafter	95,915	1,698	97,613
	\$ <u>132,055</u>	<u>7,398</u>	<u>139,453</u>

UNIVERSITY OF THE PACIFIC
Notes to Financial Statements
June 30, 2021
(with summarized comparative financial information
for the year ended June 30, 2020)

Sinking fund requirements on CEFA Revenue Bonds, Series 2012A and Series 2015, and CMFA Project Revenue Bonds, Series 2020A, are as follows (in thousands):

Year ending:		
2024	\$	1,205
2025		1,265
2026		1,325
2027		1,395
2028		1,470
Thereafter		<u>36,530</u>
	\$	<u><u>43,190</u></u>

(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. 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 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.

UNIVERSITY OF THE PACIFIC
Notes to Financial Statements
June 30, 2021
(with summarized comparative financial information
for the year ended June 30, 2020)

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 is now the home of the University's San Francisco campus, which includes the University's Dugoni School of Dentistry.

(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, 2021. The line bears interest at an annual rate equal to 1.10% plus the greater of (i) 0.5% and (ii) the one-month LIBOR rate 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, 2021 and 2020 was approximately \$259,000 and \$14,001,000, 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, 2021

(with summarized comparative financial information
for the year ended June 30, 2020)

(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, 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 discussed in note 3.

(d) 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.

(e) 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.

(f) Asset Retirement Obligations

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

(10) Leases

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

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

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

UNIVERSITY OF THE PACIFIC

Notes to Financial Statements

June 30, 2021

(with summarized comparative financial information
for the year ended June 30, 2020)

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, 2021 are 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	32	—
	<hr/>	<hr/>
Total minimum lease payments	3,926	496
Less amounts representing interest	<hr/> —	<hr/> (12)
Present value of net minimum lease payments	\$ <u><u>3,926</u></u>	<u><u>484</u></u>

As of June 30, 2020, Pacific was obligated under various capital leases for equipment that expire at various dates during the next two years. Amortization of assets held under capital leases was included in depreciation expense.

Amounts reported in the balance sheet as of June 30, 2020 were as follows (in thousands):

	<u>2020</u>
Equipment	\$ 2,157
Less accumulated depreciation	<hr/> (1,343)
	\$ <u><u>814</u></u>

UNIVERSITY OF THE PACIFIC
Notes to Financial Statements
June 30, 2021
(with summarized comparative financial information
for the year ended June 30, 2020)

Future minimum capital lease payments as of June 30, 2020 were as follows (in thousands):

	Capital leases
Fiscal year ending June 30:	
2021	\$ 456
2022	<u>184</u>
Total minimum lease payments	640
Less amounts representing interest	<u>(18)</u>
Present value of net minimum lease payments	\$ <u><u>622</u></u>

(11) Composition of Net Assets

The composition of the categories of net assets as of June 30, 2021 and 2020 consists of (in thousands):

	2021	2020
Without donor restrictions:		
Undesignated net assets	\$ 24,678	23,497
Designated for specific purposes	147,589	108,596
Quasi-endowment	41,690	30,501
Investment in fixed assets, net of long-term debt and capital lease obligations	<u>217,248</u>	<u>216,736</u>
Total without donor restrictions	<u>431,205</u>	<u>379,330</u>
With donor restrictions:		
Time or Purpose:		
Unappropriated endowment earnings	228,009	77,209
Trust and annuities and other funds	20,278	14,586
Amounts restricted by donors for programs	2,650	2,157
Amounts restricted by donors for investment in plant	2,959	2,958
Pledges receivable for programs	1,558	2,596
Pledges receivable for investment in plant	<u>1,182</u>	<u>1,911</u>
Total with donor restrictions for time or purpose	<u>256,636</u>	<u>101,417</u>

UNIVERSITY OF THE PACIFIC
Notes to Financial Statements
June 30, 2021
(with summarized comparative financial information
for the year ended June 30, 2020)

	<u>2021</u>	<u>2020</u>
Perpetual:		
Endowments	\$ 355,444	348,090
Other donor restricted funds	18,647	17,283
Trust and annuities	6,199	5,659
Pledges receivable	6,103	5,126
Total with donor restrictions in perpetuity	386,393	376,158
Total with donor restrictions	643,029	477,575
	\$ <u>1,074,234</u>	<u>856,905</u>

(12) 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.

Expenses by functional classification were as follows for the year ended June 30, 2021 (in thousands):

	<u>Year ended June 30, 2021</u>								
	Instructional and departmental research	Auxiliary Enterprises	Sponsored programs	Academic support	Student services	General administration	Fundraising	Public Service	Total
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	7,953
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	20,004
Total	\$ <u>177,160</u>	<u>7,659</u>	<u>14,979</u>	<u>40,779</u>	<u>45,573</u>	<u>3,812</u>	<u>3,017</u>	<u>199</u>	<u>293,178</u>

UNIVERSITY OF THE PACIFIC

Notes to Financial Statements

June 30, 2021

(with summarized comparative financial information
for the year ended June 30, 2020)

	Year ended June 30, 2020							
	Instructional and departmental research	Auxiliary Enterprises	Sponsored programs	Academic support	Student services	General administration	Fundraising	Total
Compensation and benefits	\$ 128,485	1,703	8,681	25,020	29,574	7,441	9,016	209,920
Professional and outsourced services	10,884	934	2,151	1,611	2,418	298	766	19,062
Computers, software, and maintenance agreements	4,508	52	198	1,197	1,584	219	371	8,129
Equipment and supplies	8,269	5,028	1,606	3,326	2,582	222	319	21,352
Travel	1,081	11	120	383	476	48	175	2,294
Occupancy	4,563	767	452	924	1,373	212	370	8,661
Cost of goods sold		1,802						1,802
Other	3,252	5,625	797	550	5,872	89	949	17,134
Financial and insurance	6,346	179	302	1,230	1,637	228	474	10,396
Depreciation and amortization	12,335	—	946	2,523	3,354	645	917	20,720
Total	\$ 179,723	16,101	15,253	36,764	48,870	9,402	13,357	319,470

(13) Related-Party Transactions

Included in revenues for the years ended June 30, 2021 and 2020 are contributions from Board of Regents members totaling \$7,208,675 and \$1,386,157, respectively. In addition, pledge payments totaling \$2,340,030 and \$626,424 were received from Board of Regents members during the years ended June 30, 2021 and 2020, respectively.

Pledges include promises to give from members of the Board of Regents. As of June 30, 2021 and 2020, the net present value of Board of Regents' pledges outstanding totaled approximately \$1,706,717 and \$1,295,690, respectively.

(14) Subsequent Events

Pacific has evaluated its subsequent events through November 10, 2021, the date the financial statements were issued.

In August 2021, the University completed the delivery of a tax-exempt bond refunding through the California Municipal Finance Authority Series 2021A in the par amount of \$20,570,000. The proceeds from these bonds will be used to refund the Series 2012A project revenue bonds in the aggregate principal amount of \$22,800,000. Subsequent events have been evaluated through November 10, 2021, which corresponds to the date when the financial statements were issued. There are no other subsequent events that require disclosures.



KPMG LLP
Suite 700
20 Pacifica
Irvine, CA 92618-3391

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, which comprise the balance sheet as of June 30, 2021, 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 10, 2021.

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 may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 University'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's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Irvine, California
November 10, 2021