


UNIVERSITY OF THE PACIFIC

Financial Statements

June 30, 2018
(with summarized comparative financial information for the year-ended June 30, 2017)

(With Independent Auditors' Report Thereon)



UNIVERSITY OF THE PACIFIC

Table of Contents

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, 2018, 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, 2018, 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 the Pacific's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 1, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017 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, 2018 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, 2018

UNIVERSITY OF THE PACIFIC

Balance Sheet

June 30, 2018
(with comparative financial information
as of June 30, 2017)

(In thousands)

Assets		**2018**	**2017**
Cash and cash equivalents	$	11,611	11,800
Accounts receivable, net		12,609	8,549
Pledges receivable, net		13,461	17,086
Inventories, prepaid expenses, and other assets		6,489	7,304
Student loans receivable, net		30,558	31,506
Investments		636,686	622,926
Fixed assets, net		373,664	366,627
Total assets	$	1,085,078	1,065,798
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued liabilities	$	32,271	27,875
Advance deposits and deferred revenue		20,185	15,963
Self-insurance and early retirement reserves		13,736	14,599
Capital lease obligations		1,073	1,441
Asset retirement obligations		9,025	8,586
Notes and bonds payable		179,927	189,177
Trust and annuity obligations		11,147	11,545
Federal student loan funds		31,990	31,609
Total liabilities		299,354	300,795
Net assets:			
Unrestricted		333,259	341,831
Temporarily restricted		115,693	98,542
Permanently restricted		336,772	324,630
Total net assets		785,724	765,003
Total liabilities and net assets	$	1,085,078	1,065,798

See accompanying notes to financial statements.

UNIVERSITY OF THE PACIFIC

Statement of Activities

Year ended June 30, 2018
(with summarized financial information
for the year ended June 30, 2017)

(In thousands)

	2018 Unrestricted	2018 Temporarily restricted	2018 Permanently restricted	2018 Total	2017 Total
Revenues, gains, and other support:					
Tuition and student fees	$ 319,687	—	—	319,687	304,749
University-sponsored financial aid	(74,414)	—	—	(74,414)	(65,738)
Donor-sponsored financial aid	(10,011)	—	—	(10,011)	(8,664)
Net tuition and fees	235,262	—	—	235,262	230,347
Sales and services of auxiliary enterprises	28,026	—	—	28,026	26,171
Government grants and contracts	11,065	—	—	11,065	11,165
Private grants, gifts, and bequests	9,765	—	10,962	20,727	29,514
Investment return distributed	4,144	14,476	—	18,620	17,230
Clinic fees	15,138	—	—	15,138	14,438
Other	12,785	—	—	12,785	15,113
Total revenues and gains	316,185	14,476	10,962	341,623	343,978
Reclassifications:					
Net assets released from restrictions	14,424	(14,424)	—	—	—
Total revenues, gains, and reclassifications	330,609	52	10,962	341,623	343,978
Expenses:					
Instructional and departmental research	158,906	—	—	158,906	153,919
Auxiliary enterprises	34,597	—	—	34,597	32,210
Sponsored programs	12,832	—	—	12,832	12,116
Academic support	31,405	—	—	31,405	29,218
Student services	28,115	—	—	28,115	26,171
Student aid	1,329	—	—	1,329	1,311
General administration	9,495	—	—	9,495	13,283
Fundraising	14,833	—	—	14,833	14,444
Operation and maintenance of plant	18,674	—	—	18,674	17,380
Depreciation and amortization	22,533	—	—	22,533	24,017
Interest	7,159	—	—	7,159	6,888
Total expenses	339,878	—	—	339,878	330,957
Increase (decrease) in net assets from operations before other changes	(9,269)	52	10,962	1,745	13,021
Other changes:					
Investment return, net of distributions	697	21,915	—	22,612	33,554
Actuarial gain (loss) on annuity and trust obligations	—	(1,204)	1,180	(24)	(2,210)
Other changes	—	(3,612)	—	(3,612)	(783)
Change in net assets	(8,572)	17,151	12,142	20,721	43,582
Net assets, beginning of year	341,831	98,542	324,630	765,003	721,421
Net assets, end of year	$ 333,259	115,693	336,772	785,724	765,003

See accompanying notes to financial statements.

UNIVERSITY OF THE PACIFIC

Statement of Cash Flows

Year ended June 30, 2018
(with comparative financial information
for the year ended June 30, 2017)

(In thousands)

		2018	2017
Cash flows from operating activities:			
Change in net assets	$	20,721	43,582
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation and amortization		22,533	24,017
Noncash contributions		(456)	2,910
Noncash asset retirement provision		439	446
Actuarial loss on annuity and trust obligations		24	2,210
Net realized and unrealized gains on investments		(28,270)	(42,014)
Contributions restricted for purchasing capital assets		(3,343)	(2,087)
Contributions restricted for long-term investment		(10,460)	(15,085)
Other noncash items		(405)	3,413
Changes in assets and liabilities:			
Accounts receivable		(4,060)	(337)
Pledges receivable		3,625	(132)
Estate gift receivable		—	1,850
Inventories, prepaid expenses, and other assets		815	(532)
Accounts payable and accrued liabilities		4,396	2,988
Advance deposits and deferred revenue		4,222	1,342
Self-insurance and Early retirement reserves		(863)	1,527
Federal student loan funds		381	433
Net cash provided by operating activities		9,299	24,531
Cash flows from investing activities:			
Proceeds from sale of investments		877,217	823,178
Purchase of investments		(861,887)	(866,301)
Purchase of fixed assets		(29,232)	(21,862)
Proceeds from student loan collections		5,799	6,314
Student loans issued		(4,851)	(6,230)
Net cash used in investing activities		(12,955)	(64,901)
Cash flows from financing activities:			
Contributions restricted for purchasing capital assets		3,343	2,087
Contributions restricted for long-term investment		10,460	15,085
Trust and annuity obligations		(700)	(922)
Proceeds from issuance of bonds		—	33,120
Payment on notes payable, bonds payable, and capital leases		(9,636)	(8,766)
Net cash provided by financing activities		3,467	40,604
Net change in cash and cash equivalents		(189)	234
Cash and cash equivalents, beginning of year		11,800	11,566
Cash and cash equivalents, end of year	$	11,611	11,800
Supplemental disclosure of cash flow information:			
Interest paid	$	7,109	7,092
Supplemental disclosure of noncash investing and financing activities:			
Equipment acquired under capital leases	$	510	953
Contributed securities		890	1,630

See accompanying notes to financial statements.

(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, trusts and annuities, 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, pledges, trusts and annuities, 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 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.

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, 2018 included $2,912,325 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, 2018, Pacific's cash of $8,699,014 included $7,961,133 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 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 trust and annuity 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.

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 temporarily or permanently restricted contributions, depending on the donor restriction.

(i) Trust and Annuity Obligations

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

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.

(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 unrestricted or temporarily restricted 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 unrestricted 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, 2018.

(l) 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.

(m) Expenses

Expenses are reported as decreases in unrestricted net assets.

 (Continued)

(n) 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.

(o) 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.

(p) 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, 2017, from which the summarized information was derived.

(q) 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.

(2) Receivables

(a) Accounts Receivable

Accounts receivable as of June 30, 2018 and 2017 are without collateral and consist of (in thousands):

		2018	2017
Student accounts	$	4,318	2,105
Clinic		3,738	3,382
Government contracts and other		5,906	4,415
Total		13,962	9,902
Less allowance for doubtful accounts		(1,353)	(1,353)
Accounts receivable, net	$	12,609	8,549

(Continued)

(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, 2018 and 2017 consist of (in thousands):

		2018	2017
Federal government programs	$	28,425	29,528
Institutional programs		3,033	2,878
Total		31,458	32,406
Less allowance for doubtful loans		(900)	(900)
Student loans receivable, net	$	30,558	31,506

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 $32.0 million and $31.6 million at June 30, 2018 and 2017, 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, 2018 and 2017, the following amounts were past due under federal student loan programs:

		1–59 days past due	60–90 days past due	90+ days past due	Total past due
June 30, 2018	$	474,928	238,518	2,323,408	3,036,854
June 30, 2017		385,354	230,196	2,268,355	2,883,905

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.

(Continued)

(c) Pledges Receivable

Pledges receivable as of June 30, 2018 and 2017 consist of (in thousands):

		2018	**2017**
Pledges to be collected:			
In one year or less	$	13,019	13,013
Between one year and five years		6,738	11,561
In more than five years		1,205	697
Total Pledges		20,962	25,271
Less:			
Allowance for nonfulfillment		(7,113)	(7,718)
Discount to present value at 0.02% to 5.16%		(388)	(467)
Pledges receivable, net	$	13,461	17,086

Pledges receivable as of June 30, 2018 and 2017 will, when collected, have the following restrictions (in thousands):

		2018	**2017**
Endowment with earnings expendable for departmental programs and activities	$	3,326	3,430
Endowments with earnings expendable for scholarships		3,467	3,625
Building construction		4,955	5,056
Departmental programs and activities		1,713	4,975
	$	13,461	17,086

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

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, 2018 (in thousands):

	Fair value measurement at June 30, 2018				
	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, 2018**
Cash and cash equivalents	$ 102,545	—	—	—	102,545
Time deposits	13,000	—	—	—	13,000
Long-duration government bonds	—	8,700	—	—	8,700
Long-duration bond mutual funds	55,736	—	—	—	55,736
Short-duration bond mutual funds	54,328	—	—	—	54,328
Global bond funds	—	—	—	5,025	5,025
U.S. equities	75,695	—	700	42,728	119,123
U.S. equities mutual funds	37,139	—	—	—	37,139

	Fair value measurement at June 30, 2018				
	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, 2018
International equities funds	$ 39,246	—	—	76,408	115,654
Private equity funds	—	—	—	36,645	36,645
Hedge funds	—	—	741	65,362	66,103
Real asset funds	—	—	—	19,853	19,853
Assets held by other trustees	—	—	1,762	—	1,762
Real and personal property	—	—	1,073	—	1,073
	$ 377,689	8,700	4,276	246,021	636,686

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

Cash, cash equivalents, and certificate of 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, 2017 (in thousands):

	Fair value measurement at June 30, 2017				
	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, 2017
Cash and cash equivalents	$ 99,337	—	—	—	99,337
Time deposits	9,000	—	—	—	9,000
Long-duration government bonds	—	14,239	—	—	14,239
Long-duration bond mutual funds	53,602	—	—	—	53,602

	Fair value measurement at June 30, 2017				
	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, 2017
Short-duration bond mutual funds	$ 65,646	—	—	—	65,646
Global bond funds	—	—	—	5,048	5,048
U.S. equities	81,646	—	469	38,982	121,097
U.S. equities mutual funds	29,853	—	—	—	29,853
International equities funds	49,754	—	—	63,676	113,430
Private equity funds	—	—	—	30,713	30,713
Hedge funds	—	—	1,095	60,337	61,432
Real asset funds	—	—	—	17,111	17,111
Assets held by other trustees	—	—	1,751	—	1,751
Real and personal property	—	—	667	—	667
	$ 388,838	14,239	3,982	215,867	622,926

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.

The following table presents investments with applicable funding commitments, redemption, and restrictions as of June 30, 2018 (in thousands):

	Fair value	Unfunded commitments	Redemption frequency	Redemption notice period
Private equity funds (a)	$ 36,645	47,383	See note	See note
Multistrategy hedge funds (b)	21,774	—	Quarterly, semi-annually	45–95 days
Event-driven hedge funds (c)	15,649	—	Quarterly	65-90 days
Equity long/short hedge funds (d)	28,680	—	Monthly, quarterly	30–65 days
Real asset funds (e)	19,853	—	Monthly	16–30 days
U.S. equities and assets held by other trustees (f)	2,462	—	See note	See note
Real and personal property (g)	1,073	—	See note	See note
International equities funds (h)	76,408	—	Monthly	30 days
Global bond funds (i)	5,025	—	Monthly	10 days
Domestic equity-mid cap growth (j)	42,728	—	Monthly	5–30 days
Total	$ 250,297	47,383		

(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, 2018, 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, 2018, 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.

(c) This category includes investments in hedge funds that seek to profit from companies undergoing extraordinary events that will impact the companies' financial structures. These events can include mergers and acquisitions, distressed and stressed investing, capital structure arbitrage, restructurings and spin-offs. The fair values of the investments in this category have been estimated using the net asset value per share of the investments. All investments in this category can be redeemed quarterly subject to the notice period.

(d) This category includes investments in hedge funds that invest both long and short in global equities. Management of the hedge funds has the ability to shift investments from value to growth strategies, from small to large capitalization stocks, U.S. and international stocks, and from a net long position to a net short position. The fair values of the investments in this category have been estimated using the net asset value per share of the investments. All investments in this category can be redeemed monthly or quarterly subject to the notice period.

(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 $1,762,000 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 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 $16,213,000 and $18,749,000 held under split-interest trust agreements as of June 30, 2018 and 2017, respectively. Bond and note proceeds included in investments and designated for construction and equipment financing were $4,325,567 as of June 30, 2018 and $22,874,548 as of June 30, 2017.

The following summarizes total investment return for endowed and nonendowed assets for the year ended June 30, 2018 and its classification in the statement of activities (in thousands):

		Total	Unrestricted	Temporarily restricted
Dividends and interest	$	12,962	3,707	9,255
Realized and unrealized gains on investments, net		28,270	1,134	27,136
Total investment return, net	$	41,232	4,841	36,391
Investment return distributed	$	18,620	4,144	14,476
Investment return, net of distributions		22,612	697	21,915
Total investment return, net	$	41,232	4,841	36,391

The following summarizes total investment return for endowed and nonendowed assets for the year ended June 30, 2017 and its classification in the statement of activities (in thousands):

		Total	Unrestricted	Temporarily restricted
Dividends and interest	$	8,770	3,048	5,722
Realized and unrealized gains on investments, net		42,014	3,191	38,823
Total investment return, net	$	50,784	6,239	44,545
Investment return distributed	$	17,230	3,619	13,611
Investment return, net of distributions		33,554	2,620	30,934
Total investment return, net	$	50,784	6,239	44,545

(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, 2018, 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, 2018, these investments are not subject to the target rate per the spending policy and are not considered part of invested endowed assets. Funds from spending appropriations are distributed in equal quarterly installments as determined at the beginning of each fiscal year.

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

Endowment net asset composition by type of fund as of June 30, 2018 (in thousands):

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$	(28)	98,309	322,646	420,927
Board-designated endowment funds		32,049	—	—	32,049
Total funds	$	32,021	98,309	322,646	452,976

Endowment net asset composition by type and fund as of June 30, 2017 (in thousands):

		Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$	(2)	83,895	312,186	396,079
Board-designated endowment funds		27,400	—	—	27,400
Total funds	$	27,398	83,895	312,186	423,479

Changes in endowment net assets were as follows for the year ended June 30, 2018 (in thousands):

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Invested and other endowment assets beginning of year	$ 27,398	83,895	324,630	435,923
Less pledge and trust assets, net	—	—	(12,444)	(12,444)
Invested endowment assets, beginning of year	27,398	83,895	312,186	423,479
Investment return:				
Dividends and interest	3,535	2,937	—	6,472
Realized and unrealized gains, net	1,669	26,210	—	27,879
Total investment return	5,204	29,147	—	34,351
Contributions	1	—	10,419	10,420
Spending policy distributed	(771)	(14,721)	—	(15,492)
Transfers into (out) endowment	189	(12)	41	218
Endowment net assets, end of year	$ 32,021	98,309	322,646	452,976

Changes in endowment net assets were as follows for the year ended June 30, 2017 (in thousands):

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Invested and other endowment assets beginning of year	$ 25,193	53,762	309,792	388,747
Less pledge and trust assets, net	—	—	(13,503)	(13,503)
Invested endowment assets, beginning of year	25,193	53,762	296,289	375,244
Investment return:				
Dividends and interest	(3,017)	6,085	—	3,068
Realized and unrealized gains, net	2,806	37,362	—	40,168
Total investment return	(211)	43,447	—	43,236
Contributions	442	—	15,085	15,527
Spending policy distributed	(1,310)	(13,564)	—	(14,874)
Transfers into endowment	3,284	250	812	4,346
Endowment net assets, end of year	$ 27,398	83,895	312,186	423,479

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 $28,000 and $2,000 as of June 30, 2018 and June 30, 2017, 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 $2,961,000 and $2,849,000 for the years ended June 30, 2018 and 2017, respectively.

(5) Fixed Assets

Fixed assets as of June 30, 2018 and 2017 consist of (in thousands):

		2018	2017
Land	$	6,263	6,263
Buildings		455,055	452,614
Equipment		65,875	65,250
Library books and collections		42,109	46,483
Construction in progress		39,430	20,621
Improvements other than buildings		22,192	17,680
		630,924	608,911
Less accumulated depreciation		(257,260)	(242,284)
Total fixed assets, net	$	373,664	366,627

(6) Notes and Bonds Payable

Notes and bonds payable as of June 30, 2018 and 2017 consist of (in thousands):

		2018	2017
Bonds payable:			
California Educational Facilities Authority (CEFA)			
Project Revenue Bonds:			
Series 2009, 4.000–5.500%, due 2010 to 2039	$	11,705	12,010
Series 2012A, 2.000–4.500%, due 2012 to 2042		28,685	30,020
Series 2014, 2.37%, due 2014 to 2034		20,350	23,856
Series 2015, 2.000–5.000%, due 2015 to 2036		62,835	64,595

		2018	2017
California Municipal Finance Authority (CMFA)	$		
Project Revenue Bonds:			
Series 2016, 4.000–5.000%, due 2019 to 2048		33,120	33,120
		156,695	163,601
Unamortized premium on bonds		12,174	12,732
Bond issue costs (net)		(1,364)	(1,431)
Total bonds payable		167,505	174,902
Notes payable:			
JPMC Term Loan, 3.13%, due 2014 to 2021		12,422	14,275
Total notes and bonds payable	$	179,927	189,177

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

		Bonds	Notes	Total
Year ending June 30:				
2019	$	5,140	1,912	7,052
2020		5,860	1,972	7,832
2021		21,575	8,538	30,113
2022		4,650	—	4,650
2023		4,855	—	4,855
Thereafter		114,615	—	114,615
	$	156,695	12,422	169,117

Sinking fund requirements on CEFA Revenue Bonds, Series 2012A and Series 2015, and CMFA Project Revenue Bonds, Series 2016, are as follows (in thousands):

		Long-term debt
Year ending June 30, 2018:		
2024	$	1,205
2025		1,265
2026		1,325
2027		1,395
2028		1,470
Thereafter		44,870
	$	51,530

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

In October 2016, Pacific issued CMFA Revenue Bonds, Series 2016, in the amount of $33,120,000 with premium of $3,584,279. Such bonds are payable in varying annual installments through 2048 with interest paid semiannually at rates ranging from 4.00%–5.00%. After original issue premium and costs of issuance, net proceeds of $34,000,000 were used to finance the Upper Division Housing Project that includes two four-story residence halls on the Stockton campus.

(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. Subsequent to this initial rate 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 is now 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.

(c) 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, 2018 and 2017 was approximately $14,219,998 and $13,671,784, 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.

During FY18, the University offered a voluntary employee severance package to all benefit eligible employees in the McGeorge School of Law. The severance expenses were incurred with the largest amount included in the instructional and departmental research line on the Statement of Activities and lessor amounts included across remaining expense categories.

During FY18 the City and County of San Francisco re-assessed the taxable value of floors 6 & 7 of the University owned building at 155 5th Street. The re-assessment resulted in a substantial retro-active property tax liability for the University paid during FY18. The retro-active property tax increase is recorded in the auxiliary enterprises line on the Statement of Activities.

(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) 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, 2018 and 2017, the fair value of Pacific's notes and bonds approximates $181,400,000 and $194,500,000, 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 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 capital leases for equipment that expires at various dates during the next five years. As of June 30, 2018 and 2017, the gross amount of equipment recorded under active capital leases was as follows (in thousands):

		2018	2017
Equipment	$	3,106	5,695
Less accumulated depreciation		(1,978)	(3,976)
	$	1,128	1,719

Future minimum capital lease payments as of June 30, 2018 are as follows (in thousands):

		Capital leases
Fiscal year ending June 30:		
2019	$	712
2020		308
2021		89
Total minimum lease payments		1,109
Less amounts representing interest		(36)
Present value of net minimum capital lease payments	$	1,073

(11) Composition of Net Assets

The composition of the categories of net assets as of June 30, 2018 and 2017 consists of (in thousands):

		2018	2017
Unrestricted net assets:			
Undesignated net assets	$	20,077	18,897
Designated for specific purposes		87,424	119,517
Quasi-endowment		32,049	27,400
Accumulated net losses on permanently endowed funds		(28)	(2)
Investment in fixed assets, net of long-term debt		193,737	176,019
		333,259	341,831
Temporarily restricted net assets:			
Accumulated investment returns on permanently endowed funds		98,309	83,895
Trusts and annuities and other temp. restricted funds		5,749	—
Amounts restricted by donors for programs		2,009	1,659
Amounts restricted by donors for investment in plant		2,958	2,957
Pledges receivable for programs		1,713	4,975
Pledges receivable for investment in plant		4,955	5,056
		115,693	98,542
Permanently restricted net assets:			
Permanent endowment		322,646	312,186
Other permanent restricted funds		1,783	—
Pledges		6,793	7,055
Trusts and annuities		5,550	5,389
		336,772	324,630
	$	785,724	765,003

(12) Related-Party Transactions

Included in revenues for the years ended June 30, 2018 and 2017 are contributions from Board of Regents members totaling $1,542,290 and $829,470, respectively. In addition, pledge payments totaling $2,103,331 and $2,227,741 were received from Board of Regents members during the years ended June 30, 2018 and 2017, respectively.

Pledges include promises to give from members of the Board of Regents. As of June 30, 2018 and 2017, the net present value of Board of Regents' pledges outstanding totaled approximately $897,261 and $2,918,673, respectively.

(13) Subsequent Events

Pacific has evaluated its subsequent events through November 7, 2018, the date the financial statements were issued.

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

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

The Board of Regents
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, 2018, 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, 2018.

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*.

KPMG

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, 2018