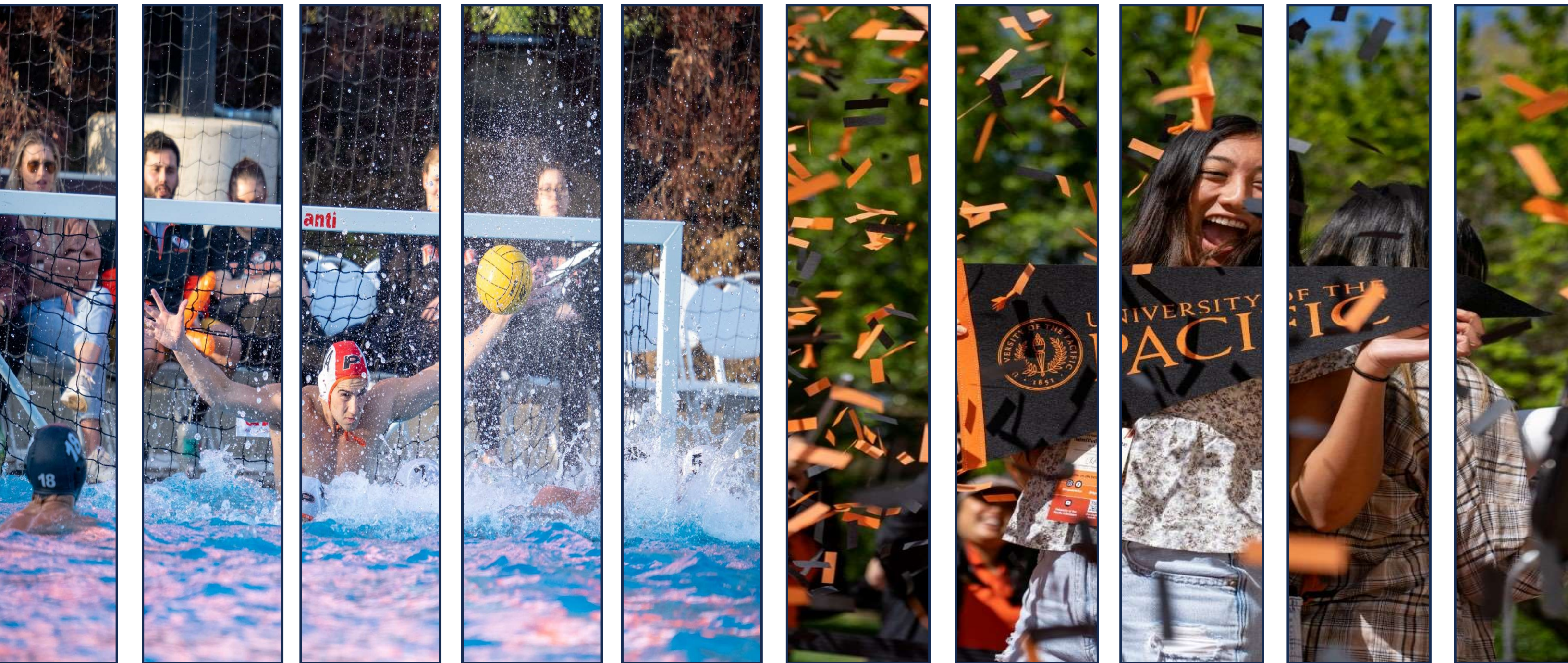
UNIVERSITY OF THE PACIFIC

Financial Statements
June 30, 2023
(with summarized comparative financial information for the year ended June 30, 2022)

(With Independent Auditors' Report Thereon)



UNIVERSITY OF THE PACIFIC

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KPMG LLP
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Independent Auditors' Report

The Board of Regents
University of the Pacific:

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the University of the Pacific, which comprise the statement of financial position as of June 30, 2023, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the University as of June 30, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying *Supplementary Schedule of Financial Responsibility Data* is presented for purposes of additional analysis as required by the US Department of Education and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the *Supplementary Schedule of Financial Responsibility Data* is fairly stated, in all material respects, in relation to the financial statements as a whole.

Report on Summarized Comparative Information

We have previously audited the University's 2022 financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated November 3, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022 is consistent, in all material respects, with the audited consolidated 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 2, 2023, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

KPMG LLP

Sacramento, California
November 2, 2023

UNIVERSITY OF THE PACIFIC

Balance Sheet

June 30, 2023
(with comparative financial information
as of June 30, 2022)

(In thousands)

Assets		**2023**	**2022**
Cash and cash equivalents	$	3,740	28,445
Accounts receivable, net		22,902	14,056
Pledges receivable, net		11,588	17,590
Inventories, prepaid expenses, and other assets		7,278	7,583
Student loans receivable, net		15,671	18,877
Investments		875,200	826,989
Fixed assets, net		376,502	361,697
Total assets	$	1,312,881	1,275,237
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued liabilities	$	43,887	36,675
Advance deposits and deferred revenue		24,758	25,824
Self-insurance and other obligations		15,240	12,587
Lease obligations		2,147	2,381
Notes and bonds payable		132,913	141,552
Trust and annuity obligations		7,535	7,724
Federal student loan funds		16,666	20,003
Total liabilities		243,146	246,746
Net assets:			
Without donor restrictions		446,415	425,111
With donor restrictions		623,320	603,380
Total net assets		1,069,735	1,028,491
Total liabilities and net assets	$	1,312,881	1,275,237

See accompanying notes to financial statements.

UNIVERSITY OF THE PACIFIC

Statement of Activities

June 30, 2023
(with summarized financial information
as of June 30, 2022)

(In thousands)

	2023			2022
	Without donor restrictions	With donor restrictions	Total	Total
Revenues, gains, and other support:				
Tuition and student fees (Includes student financial aid of $115,361 and $111,009 in 2023 and 2022, respectively)	$ 241,111	—	241,111	229,656
	241,111	—	241,111	229,656
Sales and services of auxiliary enterprises	31,496	—	31,496	28,779
Government grants and contracts	25,642	—	25,642	17,891
Private grants, gifts, and bequests	18,048	9,585	27,633	30,579
Investment return distributed	1,398	19,709	21,107	18,914
Clinic fees	15,024	—	15,024	14,995
Other	18,747	—	18,747	9,257
Net assets released from restrictions	19,709	(19,709)	—	—
Total revenues and gains	371,175	9,585	380,760	350,071
Expenses:				
Compensation and benefits	226,294	—	226,294	211,913
Materials, supplies and other	57,436	—	57,436	46,868
Services	29,398	—	29,398	28,938
Facilities and maintenance	17,590	—	17,590	16,171
Depreciation	20,693	—	20,693	19,988
Interest	4,719	—	4,719	5,424
Total expenses	356,130	—	356,130	329,302
Increase from operating activities	15,045	9,585	24,630	20,769
Nonoperating activities:				
Investment return (loss), net of distributions	4,117	16,120	20,237	(65,644)
Actuarial gain (loss) on annuity and trust obligations	2,402	(2,595)	(193)	(868)
Other	(260)	(3,170)	(3,430)	—
Increase (decrease) from nonoperating activities	6,259	10,355	16,614	(66,512)
Change in net assets	21,304	19,940	41,244	(45,743)
Net assets, beginning of year	425,111	603,380	1,028,491	1,074,234
Net assets, end of year	$ 446,415	623,320	1,069,735	1,028,491

See accompanying notes to financial statements.

UNIVERSITY OF THE PACIFIC

Statement of Cash Flows

Year ended June 30, 2023
(with comparative financial information
for the year ended June 30, 2022)

(In thousands)

		2023	2022
Cash flows from operating activities:			
Change in net assets	$	41,244	(45,743)
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation and amortization		20,693	19,988
Donated securities, net		1,122	(571)
Noncash asset retirement provision		(97)	131
Actuarial gain on annuity and trust obligations		194	867
Net realized and unrealized (gains) losses on investments		(31,925)	55,677
Contributions restricted for purchasing capital assets		(1,843)	(2,585)
Contributions restricted for long-term investment		(12,756)	(10,119)
Other noncash items		(4,006)	1,345
Changes in assets and liabilities:			
Accounts receivable		(8,846)	3,299
Pledges receivable		6,003	(8,747)
Inventories, prepaid expenses, and other assets		305	3,898
Accounts payable and accrued liabilities		7,309	(1,158)
Advance deposits and deferred revenue		(1,066)	5,954
Self-insurance and early retirement reserves		2,654	404
Lease obligations		1,377	1,673
Federal student loan funds		(3,337)	(2,085)
Net cash provided by operating activities		17,025	22,228
Cash flows from investing activities:			
Proceeds from sale of investments		554,726	602,397
Purchase of investments		(568,202)	(607,923)
Purchase of fixed assets		(35,429)	(13,010)
Proceeds from student loan collections		5,741	4,427
Student loans issued		(2,535)	(1,963)
Net cash used in investing activities		(45,699)	(16,072)
Cash flows from financing activities:			
Contributions restricted for purchasing capital assets		1,843	2,585
Contributions restricted for long-term investment		12,756	10,119
Trust and annuity obligations		(347)	355
Proceeds from issuance of bonds payable		—	20,570
Payment on notes payable, bonds payable, and finance leases		(10,283)	(35,114)
Net cash provided by (used in) financing activities		3,969	(1,485)
Net change in cash and cash equivalents		(24,705)	4,671
Cash and cash equivalents, beginning of year		28,445	23,774
Cash and cash equivalents, end of year	$	3,740	28,445
Supplemental disclosure of cash flow information:			
Interest paid	$	4,719	5,358
Supplemental disclosure of noncash investing and financing activities:			
Equipment acquired under finance leases	$	656	724
Contributed securities		4,405	2,331

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 6,200+ 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 assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets (i.e., released from restrictions).

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

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

(c) Net Assets Released from Restrictions

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

(d) Cash and Cash Equivalents

Cash and cash equivalents include all cash balances and highly liquid investments with a maturity of three months or less other than cash equivalents included in Pacific’s investment pool, which are accounted for as investments. Cash and cash equivalents at June 30, 2023 and 2022 included $1,436,834 and $1,141,966 held in money market funds. Assets with characteristics of 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, 2023 and 2022, Pacific’s net cash of $2,302,776 and $27,303,564, included $2,767,804 and $26,607,653 respectively, in excess of insured levels. Pacific has not experienced losses on these deposits to date.

(e) Inventories

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

(Continued)

(f) Investments

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

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

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

Portfolio investments are diversified but remain exposed to various risks including but not limited to, market risk, interest rate risk, credit risk, liquidity risk, inflation risk, and currency risk. Diversifying investment exposure across these investment types 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 representing differences between assumed and actual experience as to earnings, payouts, and life expectancies used in the computation of the liability for distributions. The net amount of the split-interest trusts are included in net assets with donor restrictions.

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

(j) Collections

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

(k) Self-Insurance Obligations

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, 2023.

(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. For the years ending June 30, 2023 and 2022, the estimated liability of $8,776,000 and $8,873,000 respectively are reflected in accounts payable and accrued liabilities.

(m) Income Taxes

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

(n) Use of Estimates

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

(o) Comparative Totals

The financial statements include certain prior year summarized information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with Pacific’s financial statements for the year ended June 30, 2022, 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) Advance Deposits and Deferred Revenue

Advance deposits and deferred revenue consist of deposits and tuition and fees collected for not yet completed summer and fall terms and other miscellaneous deferred revenue. Advance deposits and deferred revenue relating to tuition and fee revenue, less any refunds issued, will be recognized as revenue as services are rendered over the academic terms occurring in the year ended June 30, 2024. The University applies the practical expedient in Accounting Standards Codification (ASC) 606-10-50-14 and therefore does not disclose information about performance obligations that have an origination and expected duration within the fiscal year.

(r) Changes in Accounting Principle

Contributed Nonfinancial Assets

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

(s) Liquidity and Availability

The following table reflects the University's financial assets as of June 30, 2023 and 2022, 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.

		2023	**2022**
Total assets at year end	$	1,312,881	1,275,237
Less:			
Receivables collectable in more than one year		(9,931)	(14,449)
Pledges receivable collectable in more than one year		(6,995)	(7,505)
Donor-restricted endowment funds		(556,480)	(530,608)
Annuities and living trusts		(1,728)	(4,168)
Inventories, prepaid expenses and other assets		(7,278)	(7,583)
Board-designated endowment funds		(42,264)	(37,625)
Property, plant, and equipment		(376,502)	(361,697)
Financial assets available at year end for current use		311,703	311,602
Line of credit		20,000	20,000
Financial assets and other resources available for use within one year	$	331,703	331,602

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.

(t) Current Environment

In response to the COVID-19 pandemic, the United States Congress passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act, the Coronavirus Response and Relief Supplemental Appropriations (CRRSA) act, and the American Rescue Plan Act (ARPA). The University recognized $2,991,000 and $6,042,000 as of June 30, 2023 and 2022, respectively, in grants and contracts revenue as a result of such Acts. The funds were used to award COVID-19 relief to students and is included in the student financial aid on the statement of activities.

(u) Noncash Contributions

Pacific's policy is to use contributed nonfinancial assets for programmatic or other purposes based on the donor's imposed restrictions. Assets may be utilized by the University or monetized. For the year ending June 30, 2023, $3,630,000 was monetized related to the sale of real estate. Revenues from contributions of nonfinancial assets were $5,381,468 and $867,450 for the years ended June 30, 2023 and 2022, respectively.

(v) Tuition and Student Fees and Sales and Services of Auxiliary Enterprises

Tuition and student fees and sales and services of auxiliary enterprises revenues are recognized in accordance with ASC 606, Revenue from Contracts with Customers. The University applies the portfolio approach, which approximates the revenue that would be recognized by the individual contract approach. In connection with these contracts, the University has an obligation to provide instruction, access to various student facilities and dining services. Tuition and student fees and sales and services of auxiliary enterprises are generally collected in advance or over the course of the respective term with the revenue earned over the same term as the University's performance obligations are satisfied. Scholarship allowance represents a reduction in the consideration collected from students reflective of discounts as well as the use of donor contributions designated to reduce the amounts collected directly from students. Tuition and student fees and sales and services of auxiliary enterprises represent the cumulative transaction price reflective of ASC 606. Student tuition and fees and auxiliary enterprises received in advance of the corresponding revenue recognition are reported as customer contract liabilities in Advance deposits and deferred revenue.

(Continued)

(2) Receivables

(a) Accounts Receivable

Accounts receivable as of June 30, 2023 and 2022 are without collateral and consist of (in thousands):

		2023	2022
Student accounts	$	7,290	7,299
Clinic		3,195	2,517
Government contracts and other		13,770	5,593
Total		24,255	15,409
Less allowance for doubtful accounts		(1,353)	(1,353)
Accounts receivable, net	$	22,902	14,056

(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, 2023 and 2022 consist of (in thousands):

		2023	2022
Federal government programs	$	14,331	17,527
Institutional programs		2,240	2,250
Total		16,571	19,777
Less allowance for doubtful loans		(900)	(900)
Student loans receivable, net	$	15,671	18,877

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

Funds advanced by the federal government of $16.7 million and $20.0 million at June 30, 2023 and 2022, 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, 2023 and 2022, 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, 2023	$	109,449	29,750	565,040	704,239
June 30, 2022		277,107	126,587	2,563,641	2,967,335

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

(c) Pledges Receivable

Pledges receivable as of June 30, 2023 and 2022 consist of (in thousands):

		2023	2022
Pledges to be collected:			
In one year or less	$	9,951	14,917
Between one year and five years		6,021	6,332
In more than five years		974	1,174
Total		16,946	22,423
Less:			
Allowance for nonfulfillment		(4,981)	(4,651)
Discount to present value at .08% to 5.07%		(377)	(182)
Pledges receivable, net	$	11,588	17,590

Pledges receivable as of June 30, 2023 and 2022 will, when collected, have the following restrictions (in thousands):

		2023	2022
Endowment with earnings expendable for departmental programs and activities	$	1,068	6,195
Endowments with earnings expendable for scholarships		4,744	2,290
Building construction		1,604	4,549
Departmental programs and activities		4,172	4,556
Pledges receivable, net	$	11,588	17,590

(3) Investments

The Financial Accounting Standards Boards ASC Topic 820, *Fair Value Measurements and Disclosures*, defined fair value, established a framework used to measure fair value, and expanded disclosures about fair value measurement. The standard prioritizes, within the measurement of fair value, the use of market-based information over entity-specific information and establishes a three-level hierarchy for fair value measurements based on the transparency of information, such as the pricing source, used in the valuation of an asset or liability as of the measurement date.

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

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

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 commingled funds.

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

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

The following table summarizes the valuation of Pacific's investments by the ASC 820 fair value hierarchy and net asset value (NAV) as of June 30, 2023 (in thousands):

	Fair value measurement at June 30, 2023				
	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, 2023
Cash and cash equivalents	$ 162,192	—	—	—	162,192
Long-duration government bonds	67,967	665	—	—	68,632
Long-duration bond mutual funds	60,084	—	—	—	60,084
Short-duration bond mutual funds	44,215	—	—	—	44,215
Global bond funds	—	—	—	4,924	4,924
U.S. equities	61,631	—	6	63,457	125,094
U.S. equities mutual funds	59,899	—	—	—	59,899
International equities funds	36,647	—	—	72,841	109,488
Private equity funds	—	—	—	129,576	129,576
Hedge funds	—	—	—	88,456	88,456
Real asset funds	—	—	—	19,460	19,460
Assets held by other trustees	—	—	1,842	—	1,842
Real and personal property	—	—	1,338	—	1,338
Total Investments	$ 492,635	665	3,186	378,714	875,200

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

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

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

Government bonds and certain global bond funds: For the valuation of these investments, Pacific used significant other observable inputs from active markets 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, 2022 (in thousands):

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

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 NAV valued investments with applicable funding commitments, redemption, and restrictions as of June 30, 2023 (in thousands):

		Fair value	Unfunded commitments	Redemption frequency	Redemption notice period
Private investment funds (a)	$	129,576	68,033	See note	See note
Hedge funds, liquid (b)		—	—	monthly	45-95 days
Hedge funds, semi-liquid (c)		34,296	—	quarterly, semi-annually, annually	65-90 days
Hedge funds, illiquid (d)		54,160	—	greater than a year	30–65 days
Real asset funds (e)		19,460	—	monthly	16-30 days
Equities funds (f)		136,298	—	monthly	30 days
Fixed income funds (g)		4,924	—	monthly	10 days
Total	$	378,714	68,033		

(a) Private investment funds include private equity, private credit, and private real asset funds that invest in the United States and internationally. These investments represent drawdown vehicles that involve capital commitments and capital calls usually over a number of years. Distributions are received through the liquidation of the underlying assets of the fund to the limited partners. It is estimated that the limited partnership's underlying assets will be liquidated over 5 to 13 years. The fair values of the investments in this category have been estimated as the net asset value of Pacific's ownership interest in partners' capital. These investments can be recouped through the sale of limited partner interest in the fund but have limited marketability. 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, 2023, there is no active search for secondary buyers of any current Private Equity Funds.

(b) Hedge funds, liquid, include hedge funds that can pursue various strategies to help the portfolio achieve better risk adjusted returns while remaining sufficiently liquid. Due to the complexity of holdings, a modest percent of the redemption may be held back by the manager to confirm NAV after the next audited financial statement. Additionally, hedge funds may invest in illiquid private investments that may be placed in "side pocket" vehicles with unknown distribution amounts and frequencies resulting in reclassing the investment into the Hedge Funds, illiquid category. Liquid Hedge Funds have a monthly redemption frequency subject to the notice period.

(c) Hedge funds, semi-liquid, include hedge funds that can pursue various strategies to help the portfolio achieve better risk adjusted returns via investment in more illiquid assets. Due to the complexity of holdings, a modest percent of the redemption may be held back by the manager to confirm NAV after the next audited financial statement. Additionally, hedge funds may invest in illiquid private investments that may be placed in "side pocket" vehicles with unknown distribution amounts and frequencies resulting in reclassing the investment into the Hedge Funds, illiquid category. Semi-liquid Hedge Funds have a redemption frequency of greater than a month to a year subject to the notice period.

(d) Hedge Funds, illiquid, include hedge funds that can pursue various strategies to help the portfolio achieve better risk adjusted returns via investment in more illiquid assets. Due to the complexity of holdings, a modest percent of the redemption may be held back by the manager to confirm NAV after the next audited financial statement. Additionally, hedge funds may invest in illiquid private investments that may be placed in "side pocket" vehicles with unknown distribution amounts and frequencies. Illiquid Hedge Funds have a redemption frequency of greater than a year subject to the notice period.

(e) Real Asset Funds include funds that invest primarily in REITs and Midstream Energy Infrastructure. The fair values of the investments in this category have been estimated using the net asset value per share of the investments. All funds in this category can be redeemed monthly subject to the notice period.

(f) Equity funds include domestic, developed international, and emerging market equity managers investing in Large, Mid and Small Cap companies. Some managers focus on specific fundamental factors such as value or growth. Modest leverage and shorting are used within funds by managers that utilize 130/30 active extension strategies. Some funds may also invest in non-U.S. currencies and foreign currency exchange contracts to hedge their 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 subject to the notice period.

(g) Fixed Income Funds include sovereign debt, investment grade corporate bonds, and mortgage and asset backed securities. These Funds may also invest a small allocation in emerging markets and high yield debt. Currency hedging is used to mitigate foreign exchange risks at the investment manager's discretion. 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.

Investments include approximately $14,693,000 and $14,931,000 held under split-interest trust agreements as of June 30, 2023 and 2022, respectively.

The following summarizes total investment return for endowed and non-endowed assets for the year ended June 30, 2023 and its classification in the statement of activities (in thousands):

		Without donor restrictions	With donor restrictions	Total
Dividends and interest	$	8,108	7,735	15,843
Realized and unrealized gains on investment, net		3,831	28,094	31,925
Total investment return, net	$	11,939	35,829	47,768
Investment return distributed	$	1,398	19,709	21,107
Operational investment return		6,424	—	6,424
Non-operational investment return, net of distributions		4,117	16,120	20,237
Total investment return, net	$	11,939	35,829	47,768

(Continued)

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

		Without donor restrictions	With donor restrictions	Total
Dividends and interest	$	1,363	7,584	8,947
Realized and unrealized losses on investments, net		(8,263)	(47,414)	(55,677)
Total investment return, net	$	(6,900)	(39,830)	(46,730)
Investment return distributed	$	1,258	17,656	18,914
Operational investment return		40	—	40
Non-operational investment return, net of distributions		(8,198)	(57,486)	(65,684)
Total investment return, net	$	(6,900)	(39,830)	(46,730)

(4) Endowments

Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. Donor-restricted endowments are classified as net assets with donor restrictions and board-designated endowments are classified as net assets without donor restrictions. In accordance with the California Prudent Management of Institutional Funds Act (CPMIFA), Pacific classifies as with donor-restricted net assets: (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) the accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Accumulated income and gains and losses are included within the donor-restricted net asset category, as well as endowed funds that are 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, 2023, 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 for less than 12 quarters, the fair value for purposes of applying the spending rate was the average of the quarter-end values of the endowment since the individual endowment was established. While pledges restricted to with donor-restricted endowment funds were included in the total endowment at June 30, 2023, 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, 2023 (in thousands):

		Without donor restrictions	With donor restrictions	Total
Board-designated endowment funds	$	42,263	—	42,263
Donor-restricted endowment funds:				
Accumulated investments gains		—	178,160	178,160
Original donor-restricted gift amount		—	378,320	378,320
Total funds	$	42,263	556,480	598,743

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

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

(Continued)

Changes in endowment net assets were as follows for the year ended June 30, 2023 (in thousands):

	Without donor restrictions	With donor restrictions	Total
Invested endowment assets, beginning of year	$ 37,625	530,608	568,233
Investment return:			
Dividends and interest	321	4,160	4,481
Realized and unrealized gains, net	1,864	28,665	30,529
Total investment return	2,185	32,825	35,010
Contributions	—	12,487	12,487
Spending policy distributed	(1,398)	(19,709)	(21,107)
Transfers into endowment	3,851	269	4,120
Endowment net assets, end of year	$ 42,263	556,480	598,743

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

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

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 $478,000 related to 86 endowment funds, and $1,121,000 related to 115 endowment funds, as of June 30, 2023 and 2022, respectively. These cumulative deficiencies resulted from unfavorable market fluctuations.

(5) Fixed Assets

Fixed assets as of June 30, 2023 and 2022 consist of (in thousands):

		2023	2022
Land	$	11,677	6,263
Buildings		496,924	496,869
Equipment		74,387	70,177
Library books and collections		58,725	58,408
Construction in progress		27,144	6,336
Improvements other than buildings		56,195	53,139
Total		725,052	691,192
Less accumulated depreciation		(348,550)	(329,495)
Total fixed assets, net	$	376,502	361,697

(6) Notes and Bonds Payable

Notes and bonds payable as of June 30, 2023 and 2022 consist of (in thousands):

		2023	2022
California Educational Facilities Authority (CEFA):			
Project Revenue Bonds:			
Series 2014, 1.75%, due 2023 to 2027	$	9,565	11,695
Series 2015, 2.00–5.00%, due 2023 to 2036		52,605	54,860
California Municipal Finance Authority (CMFA):			
Project Revenue Bonds:			
Series 2020A, 3.00–5.00%, due 2023 to 2048		35,005	35,950
Series 2021A, 4.00–5.00%, due 2023 to 2042		19,025	20,570
		116,200	123,075
Unamortized premium on bonds		12,885	13,579
Bond issue costs (net)		(1,290)	(1,360)
Total bonds payable		127,795	135,294
Notes payable:			
JPMC Term Loan, 2.77%, due 2027		5,118	6,258
Total notes and bonds payable	$	132,913	141,552

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

		Bonds	Notes	Total
Year ending June 30:				
2024	$	7,105	1,140	8,245
2025		7,455	1,140	8,595
2026		7,700	1,140	8,840
2027		7,980	1,140	9,120
2028		7,175	558	7,733
Thereafter		78,785	—	78,785
	$	116,200	5,118	121,318

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

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

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

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

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

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

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

In June 2014, Pacific entered into a Loan Agreement with CEFA, whereby CEFA privately placed issuances with a bank of par $36,500,000 fixed rate tax exempt Revenue Bonds (Series 2014) with final maturity of 2034. The proceeds of the 2014 Bonds were used to pay off a Line of Credit and to finance the capital project in San Francisco. The Series 2014 Bonds were issued at par value with a stated interest rate of 2.37% that are fixed under an initial rate period until June 22, 2021. In October 2020, the bonds interest rate was reset to 1.75% with final maturity of 2027.

(c) JPMorgan Chase Term Loan

In June 2014, Pacific entered into a taxable Loan Agreement with JPMorgan Chase (JPMC) in the amount of $19,500,000. 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 with maturity in 2025. There were no borrowings against the line at June 30, 2023. The line bears interest at an annual rate equal to 0.65% plus the greater of (i) 0.0% and (ii) the one-month forward-looking term rate based on SOFR quoted by U.S. Bank. Under the terms of the line of credit, Pacific is required to maintain a specified debt service coverage ratio and liquidity ratio, as those terms are defined.

(7) Retirement and Deferred Compensation Benefits

The University maintains two separate retirement plans under Sections 403(b) and 457(b) of the Code for eligible employees. Under Section 403(b), defined contribution retirement benefits are provided for University employees. Under this arrangement, Pacific and plan participants make monthly contributions 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, 2023 and 2022 was approximately $14,224,000 and $13,656,000, respectively. Additionally, under Section 457(b) of the Code, deferred compensation benefits are offered to a select group of eligible employees. Under this arrangement, Pacific and eligible plan participants are allowed the opportunity to set aside additional funds for retirement. Pacific's share of the cost of these benefits for the years ended June 30, 2023 and 2022 was approximately $217,000 and $225,000, 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. The University is subject to audits for amounts received under federal government student financial aid awards and research grants from the federal government. Management believes such audits will not result in any material liabilities against the University.

(9) Leases

Pacific is obligated under various finance leases for equipment that expires at various dates during the next five years. As of June 30, 2023 and 2022, the gross amount of equipment recorded under active finance leases was as follows (in thousands):

		2023	2022
Equipment	$	1,839	1,726
Less accumulated depreciation		(833)	(794)
	$	1,006	932

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

Maturities of lease liabilities under non-cancellable leases as of June 30, 2023 are as follows (in thousands):

		Operating leases	Finance leases
Fiscal year ending June 30:			
2024	$	782	438
2025		330	269
2026		135	87
2027		77	27
Thereafter		53	2
Total minimum lease payments		1,377	823
Less amounts representing interest		—	(53)
Present value of net minimum lease payments	$	1,377	770

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

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

(10) Composition of Net Assets

The composition of the categories of net assets as of June 30, 2023 and 2022 consists of (in thousands):

		2023	2022
Without donor restrictions:			
Undesignated net assets	$	34,029	15,409
Designated for specific purposes		126,533	151,932
Quasi-endowment		42,264	37,625
Investment in fixed assets, net of long-term debt and lease obligations		243,589	220,145
Total without donor restrictions		446,415	425,111
With donor restrictions:			
Time or purpose:			
Unappropriated endowment earnings		178,159	165,043
Trust and annuities and other funds		26,207	25,466
Amounts restricted by donors for programs		2,774	2,690
Amounts restricted by donors for investment in plant		2,697	2,959
Pledges receivable for programs		4,172	4,556
Pledges receivable for investment in plant		1,604	4,549
Total with donor restrictions for time or purpose		215,613	205,263
Perpetual:			
Endowments		378,320	365,565
Other donor restricted funds		18,142	18,639
Trust and annuities		5,433	5,428
Pledges receivable		5,812	8,485
Total with donor restrictions in perpetuity		407,707	398,117
Total with donor restrictions		623,320	603,380
	$	1,069,735	1,028,491

(11) Expenses by Function

Certain categories of 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.

(Continued)

Expenses by natural and functional classification were as follows for the year ended June 30, 2023 and 2022 (in thousands):

	Year ended June 30, 2023						
	Compensation and benefits	Materials, supplies and other	Services	Facilities and maintenance	Depreciation	Interest	Total
Instructional & Department research	$ 143,032	24,888	18,434	9,731	12,821	2,924	211,830
Auxiliary enterprises	1,563	10,004	1,316	1,015	—	—	13,898
Sponsored programs	10,031	2,843	765	808	944	215	15,606
Academic support	29,908	6,491	2,860	1,970	2,693	614	44,536
Student services	37,010	12,201	4,889	3,695	3,775	861	62,431
General administration	2,541	622	728	220	268	61	4,440
Fundraising	1,858	369	392	130	179	41	2,969
Public service	351	18	14	21	13	3	420
Total	$ 226,294	57,436	29,398	17,590	20,693	4,719	356,130

	Year ended June 30, 2022						
	Compensation and benefits	Materials, supplies and other	Services	Facilities and maintenance	Depreciation	Interest	Total
Instructional & Department research	$ 133,659	17,747	16,524	8,146	12,158	3,300	191,534
Auxiliary enterprises	1,553	9,060	1,733	2,057	—	—	14,403
Sponsored programs	7,653	3,757	466	684	867	235	13,662
Academic support	28,701	6,401	3,078	1,754	2,757	748	43,439
Student services	35,256	8,941	5,961	3,173	3,682	998	58,011
General administration	2,480	544	773	186	275	75	4,333
Fundraising	2,284	399	377	141	221	60	3,482
Public service	327	19	26	30	28	8	438
Total	$ 211,913	46,868	28,938	16,171	19,988	5,424	329,302

(12) Related-Party Transactions

Included in revenues for the years ended June 30, 2023 and 2022 are contributions from Board of Regents members totaling $2,733,466 and $2,411,403, respectively. In addition, pledge payments totaling $1,001,000 and $401,769 were received from Board of Regents members during the years ended June 30, 2023 and 2022, respectively.

Pledges include promises to give from members of the Board of Regents. As of June 30, 2023 and 2022, the net present value of Board of Regents' pledges outstanding totaled approximately $2,556,244 and $1,177,531, respectively.

(13) Financial Responsibility Standards

The University participates in federal Title IV student financial assistance programs, which require it to meet standards of financial responsibility based on criteria determined by the U.S. Department of Education (ED), as set forth in 34 CFR 668.171. The criteria for private institutions include the annual calculation by ED of a financial responsibility composite score, as further outlined in 34 CFR 668.172, using audited financial statements submitted through ED's eZ-Audit system. The composite score has been and will continue to be based on three ratios: Primary Reserve, Equity, and Net Income. These ratios utilize the following financial data of the University, which are not otherwise presented in the financial statements or other notes to the financial statements, as of and for the year ended June 30, 2023:

Financial element	Amount as reported as a component or used as a ratio input
Property, plant, and equipment, net – pre-implementation	$ 307,454,000
Property, plant, and equipment, net – post-implementation	41,903,000
Early retirement obligation	5,658,000
Term endowments with donor restrictions	4,039,000

(14) Subsequent Events

Pacific has evaluated its subsequent events through November 2, 2023, which is the date the financial statements were issued.

In August 2023, Pacific issued California Educational Finance Authority (CEFA) Revenue Bonds, Series 2023, in the amount of $ 41,790,000 with premium of $1,277,961. The bonds are payable in varying installments through 2054 with interest paid semiannually at rates ranging from 4.25% to 5.00%. After original issue premium and costs of issuance, net proceeds of $40,934,000 will be used to finance the expansion of the Sacramento campus and the renovation of four student residence halls on the Stockton campus.

UNIVERSITY OF THE PACIFIC

Supplementary Schedule of Financial Responsibility Data

Year ended June 30, 2023

Location in financial statements or related notes	Financial element	Component	Amount used as ratio input
Primary Reserve Ratio: Expendable Net Assets			
Balance Sheet	Net assets without donor restrictions	$ —	446,415,000
Balance Sheet	Net assets with donor restrictions	—	623,320,000
Note 12, Related-Party Transactions	Unsecured related party receivable	—	2,556,000
Balance Sheet	Total property, plant, and equipment, net	—	376,502,000
Note 13, Financial Responsibility Standards	Property, plant and equipment, net - pre-implementation*	307,454,000	—
Note 13, Financial Responsibility Standards	Property, plant and equipment, net - post-implementation*	41,903,000	—
Note 5, Fixed Assets	Construction in progress	—	27,144,000
Note 9, Leases	Total lease right-of-use assets	—	1,377,000
Note 9, Leases	Lease right-of-use assets - postimplementation	—	1,377,000
Note 13, Financial Responsibility Standards	Early retirement obligation**	5,658,000	—
Balance Sheet	Notes and bonds payable	—	132,913,000
Note 9, Leases	Total liability related to lease right-of-use assets	—	1,377,000
Note 9, Leases	Liability related to lease right-of-use assets – post-implementation	—	1,377,000
Balance Sheet	Trust and annuity obligations (with donor restrictions)	—	7,535,000
Note 13, Financial Responsibility Standards	Term endowments with donor restrictions***	4,039,000	—
Note 10, Composition of Net Assets	Net assets with donor restrictions: restricted in perpetuity	—	407,707,000
Primary Reserve Ratio: Expenses and Losses			
Statement of Activities	Total expenses and losses without donor restrictions	—	356,130,000
Equity Ratio: Modified Net Assets			
Balance Sheet	Net assets without donor restrictions	—	446,415,000
Balance Sheet	Net assets with donor restrictions	—	623,320,000
Note 12, Related-Party Transactions	Unsecured related party receivable	—	2,556,000
Equity Ratio: Modified Assets			
Balance Sheet	Total assets	—	1,312,881,000
Note 12, Related-Party Transactions	Unsecured related party receivable	—	2,556,000
Net Income Ratio			
Statement of Activities	Change in net assets without donor restrictions	—	21,304,000
Statement of Activities	Total revenues and gains without donor restrictions	—	371,175,000

*Property, plant and equipment amount does not include construction in progress

**Included within the self-insurance and other obligations line item on the balance sheet

***Included within trusts and annuities and other funds and other donor restricted funds in the composition of net assets (note 10)

See accompanying independent auditors' report.

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

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

The Board of Regents
University of the Pacific:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of University of the Pacific (the University) which comprise the University's statement of financial position as of June 30, 2023, 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 2, 2023.

Report on Internal Control Over Financial Reporting

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

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

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

Report on Compliance and Other Matters

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

Purpose of This Report

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

KPMG LLP

Sacramento, California
November 2, 2023