



UNIVERSITY OF THE PACIFIC

Financial Statements

June 30, 2007

(With Independent Auditors' Report Thereon)

UNIVERSITY OF THE PACIFIC

June 30, 2007

Table of Contents

	Page
Independent Auditors' Report	1
Financial Statements:	
Balance Sheet	2
Statement of Activities	3
Statement of Cash Flows	4
Notes to Financial Statements	5



KPMG LLP
55 Second Street
San Francisco, CA 94105

Independent Auditors' Report

The Board of Regents
University of the Pacific:

We have audited the accompanying balance sheet of the University of the Pacific (the University) as of June 30, 2007, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the University of the Pacific's 2006 financial statements. Those statements were audited by other auditors and, in their report dated September 25, 2006, they expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2007, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

October 1, 2007

UNIVERSITY OF THE PACIFIC

Balance Sheet

June 30, 2007

(with comparative financial information as of June 30, 2006)

(In thousands)

Assets	2007	2006
Cash and cash equivalents	\$ 10,534	16,879
Accounts receivable, net	21,704	18,828
Pledges receivable, net	19,634	20,331
Inventories, prepaid expenses, and other assets	6,696	6,633
Student loans receivable, net	32,155	29,761
Investments	368,459	319,388
Fixed assets, net	182,433	176,640
Total assets	\$ 641,615	588,460
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities	\$ 25,233	18,738
Asset retirement obligations	6,767	6,505
Advance deposits and deferred revenue	14,930	14,521
Self-insurance reserves	3,528	4,416
Early retirement reserves	2,191	2,191
Capital lease obligations	655	569
Long-term debt	119,656	118,045
Trust and annuity obligations	9,522	11,666
Federal student loan funds	27,271	26,754
Total liabilities	209,753	203,405
Net assets:		
Unrestricted	261,220	219,022
Temporarily restricted	39,378	39,472
Permanently restricted	131,264	126,561
Total net assets	431,862	385,055
Total liabilities and net assets	\$ 641,615	588,460

See accompanying notes to financial statements.

UNIVERSITY OF THE PACIFIC
Statement of Activities
Year ended June 30, 2007
(with summarized information for the year ended June 30, 2006)
(In thousands)

	2007			Total	2006 Totals
	Unrestricted	Temporarily restricted	Permanently restricted		
Revenues, gains, and other support:					
Tuition and student fees	\$ 197,195	—	—	197,195	184,525
University-sponsored financial aid	(38,822)	—	—	(38,822)	(36,304)
Donor-sponsored financial aid	(4,106)	—	—	(4,106)	(4,155)
Net tuition and fees	154,267	—	—	154,267	144,066
Sales and services of auxiliary enterprises	26,317	10	—	26,327	25,408
Government grants and contracts	35,359	—	—	35,359	37,082
Private grants, gifts, and bequests	9,350	7,227	3,781	20,358	24,868
Investment return distributed	13,951	1,116	—	15,067	11,233
Clinic fees	11,446	—	—	11,446	10,990
Other	8,226	358	23	8,607	7,777
Actuarial gain (loss) on annuity and trust obligations	—	—	—	—	—
	—	2,415	899	3,314	(1,063)
Net assets released from restrictions	11,220	(11,220)	—	—	—
Total revenues, gains, and other support	270,136	(94)	4,703	274,745	260,361
Expenses:					
Instructional and departmental research	105,578	—	—	105,578	100,898
Auxiliary enterprises	25,439	—	—	25,439	24,288
Sponsored programs	30,710	—	—	30,710	29,802
Academic support	18,621	—	—	18,621	17,675
Student services	15,075	—	—	15,075	14,331
Student aid	2,276	—	—	2,276	2,160
General administration	10,618	—	—	10,618	10,216
Fund-raising activities	8,538	—	—	8,538	8,398
Operations and plant maintenance	15,566	—	—	15,566	14,675
Depreciation and amortization	11,923	—	—	11,923	11,891
Interest	6,009	—	—	6,009	4,637
Total expenses	250,353	—	—	250,353	238,971
Increase (decrease) in net assets from operations	19,783	(94)	4,703	24,392	21,390
Other changes:					
Investment gain, net of distributions	22,415	—	—	22,415	9,190
Cumulative effect of change in accounting principle	—	—	—	—	(6,197)
Increase (decrease) in net assets	42,198	(94)	4,703	46,807	24,383
Net assets, beginning of year	219,022	39,472	126,561	385,055	360,672
Net assets, end of year	\$ 261,220	39,378	131,264	431,862	385,055

See accompanying notes to financial statements.

UNIVERSITY OF THE PACIFIC

Statement of Cash Flows

Year ended June 30, 2007

(with comparative financial information for the year ended June 30, 2006)

(In thousands)

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Increase in net assets	\$ 46,807	24,383
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	11,923	11,891
Noncash contributions	(2,618)	(1,226)
Noncash asset retirement costs including cumulative effect of change in accounting principle	262	6,505
Net realized and unrealized (gains) losses on investments	(25,810)	(12,497)
Contributions restricted for purchasing capital assets	(3,937)	(5,638)
Contributions restricted for long-term investment	(4,654)	(7,833)
Actuarial (gain) loss on annuity and trust obligations	(3,314)	—
Other noncash items	(29)	(24)
Effect on cash of changes in assets and liabilities:		
Accounts receivable	(2,876)	5,274
Pledges receivable	697	(1,128)
Inventories, prepaid expenses, and other assets	(63)	818
Accounts payable and accrued liabilities	4,108	3,255
Advance deposits and deferred revenue	409	5,499
Self-insurance reserves	(888)	23
Federal student loan funds	517	524
Net cash provided by operating activities	<u>20,534</u>	<u>29,826</u>
Cash flows from investing activities:		
Proceeds from sale of investments	235,222	442,130
Purchase of investments	(255,865)	(499,809)
Purchase of fixed assets	(14,920)	(14,058)
Proceeds from student loan collections	5,263	6,953
Student loans issued	(7,657)	(9,644)
Proceeds from sale of property	—	285
Net cash used in investing activities	<u>(37,957)</u>	<u>(74,143)</u>
Cash flows from financing activities:		
Contributions restricted for purchasing capital assets	3,937	5,638
Contributions restricted for long-term investment	4,654	7,833
Trust and annuity obligations	1,170	3,077
Proceeds from issuance of bonds	4,250	77,180
Payment on notes payable, bonds payable, and capital leases	(2,933)	(53,179)
Net cash provided by financing activities	<u>11,078</u>	<u>40,549</u>
Net decrease in cash and cash equivalents	<u>(6,345)</u>	<u>(3,768)</u>
Cash and cash equivalents, beginning of year	<u>16,879</u>	<u>20,647</u>
Cash and cash equivalents, end of year	\$ <u>10,534</u>	\$ <u>16,879</u>
Supplemental disclosure of cash flow information:		
Interest paid	\$ 5,641	4,403
Supplemental disclosure of noncash investing and financing activities:		
Equipment acquired under capital leases	\$ 416	783

See accompanying notes to financial statements.

UNIVERSITY OF THE PACIFIC

Notes to Financial Statements

June 30, 2007

(with comparative financial information
for the year ended June 30, 2006)

(1) Organization and Summary of Significant Accounting Policies

(a) *Nature of Operations*

The University of the Pacific (University) was founded in 1851 and offers undergraduate and graduate programs of higher education through three campuses located in Northern California. Funding sources generally include tuition and fees charged to students, income of auxiliary enterprises, grants, contracts, gifts, and bequests.

(b) *Basis of Presentation*

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

The University classifies net assets and revenues, gains and losses into three categories, based on the existence or absence of donor-imposed restrictions. The categories are permanently restricted, temporarily restricted, and unrestricted net assets.

- Permanently restricted net assets (endowments) are comprised of the historical dollar amount of gifts, including pledges, trusts, and remainder interests, which are required by donors to be permanently retained. Pledges, trusts, and remainder interests designated for permanently restricted purposes are reported at their estimated present values. Endowments 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.
- Temporarily restricted net assets include gifts, pledges, trusts, remainder interests, and income and gains on restricted contributions which can be expended but for which restrictions have not yet been met. Such restrictions include purpose restrictions where donors have specified the purpose for which the net assets are to be spent, or time restrictions imposed by donors or implied by the nature of the gift (capital projects, pledges to be paid in the future, life income funds, etc.)
- Unrestricted net assets are all the remaining net assets of the University. Unrestricted net assets are, in part, designated for specific purposes by action of the board of regents and may otherwise be limited by contractual agreements with outside parties.

In accordance with the American Institute of Certified Public Accountants Audit and Accounting Guide, (i) tuition and fees are reflected net of financial aid provided in the form of institutional scholarships; (ii) expenses include vested benefits of employees for future compensated absences; and (iii) funds administered as an intermediary for others, including student loan funds provided by federal agencies, are accounted for as liabilities rather than as net assets of the University.

(c) *Net Assets Released from Restrictions*

Net assets released from restrictions as reported in current operations are comprised of expenditures, funded by gifts and endowment earnings, for scholarships, capital improvements and other purposes designated by the donors. Plant related items, funded by gifts, include expenditures for University building and remodeling projects.

UNIVERSITY OF THE PACIFIC

Notes to Financial Statements

June 30, 2007

(with comparative financial information
for the year ended June 30, 2006)

(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 the University's investment pool which are accounted for as investments.

The University 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 \$100,000 for each financial institution. The University has not experienced losses on these deposits to date.

(e) Inventory

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

(f) Investments

The University's investments are recorded at fair value. The fair value of publicly traded equity and fixed income securities is based on quoted market prices. The fair value of direct real estate investments is determined from periodic valuation prepared by independent appraisers. Hedge funds and private equity investments held through limited partnerships or commingled trusts consist primarily of investments that are not readily marketable. Investments in these categories, which are managed externally, are estimated by management based upon the most current information provided by the general partner. Net appreciation (depreciation) in investments, including realized gains or losses and unrealized appreciation or (depreciation) on those investments, as well as all dividends, interest, and other investment income, is shown in the statement of activities.

These investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect total net assets and the amounts reported in the balance sheet.

Gains and investment income that are limited to specific uses by donor-imposed restrictions are reported as increases in unrestricted net assets if the restrictions are met in the same reporting period that the gains and income are recognized. Losses on investments related to gifts that the donor required to be invested in perpetuity (i.e., endowment funds) are classified as decreases in unrestricted net assets; subsequent gains that restore the fair value of the assets of the endowment funds to the required level are classified as increases in unrestricted net assets.

(g) Endowment Investment Return Spending Policy

The University invests certain assets on a pooled basis under a methodology wherein the investment returns of the pool are allocated proportionately among the individual funds and activities participating in the pool. Board policy allows the board of regents to appropriate portions of the net appreciation resulting from investment of endowment corpus and from investment of amounts set aside by the board of regents as quasi-endowment investments as is prudent considering the

UNIVERSITY OF THE PACIFIC

Notes to Financial Statements

June 30, 2007

(with comparative financial information
for the year ended June 30, 2006)

University's long and short-term needs, present and anticipated financial requirements, expected total return on its investments, price level trends and general economic conditions. Under the University's endowment pool spending policy, a percentage of the average fair value at the end of the previous three years of endowment and quasi-endowment investments is appropriated to support current operations. The spending rate was 4.75% and 5.00% for the years ended June 30, 2007 and 2006, respectively.

(h) 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. Assets with a cost of over \$5,000 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.

(i) Contributions

Unconditional contributions received, including unconditional promises or pledges, are recognized as revenue when the donors' unconditional commitment is received. Conditional promises and gifts are recorded as revenue when the donor's conditions are substantially met. Pledges in excess of \$5,000 are recorded at the estimated present value of the future cash flows, net of an allowance for nonfulfillment. Promises made that are designated for future periods or are restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support, depending on the nature of the restriction. Donor-restricted gifts, including investment return on endowments, which are received and either spent or deemed spent within the same year are reported as unrestricted revenues. Gifts specified for the acquisition or construction of long-lived assets are reported as temporarily restricted net assets until the related expense has been incurred, at which time the restrictions are released and the net asset amount is reclassified to the unrestricted category.

(j) Split Interest Trusts

Split interest trusts are established by gifts that require payments to be made to the donor or the donor's designee(s) from assets of the trust and which name the University as a beneficiary of all or a portion of the assets remaining at the termination of the trust. Split interest trusts for which the University is the trustee are recorded as contribution income 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 obligations representing differences between assumed and actual experience as to earnings, payouts and life expectancies used in the computation of the liability for distributions. If the use of the assets remaining at the termination of the trust is restricted by the donor, 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.

UNIVERSITY OF THE PACIFIC

Notes to Financial Statements

June 30, 2007

(with comparative financial information
for the year ended June 30, 2006)

(k) *Assets Held by Other Trustees*

Funds held in trust by others represent assets irrevocably held and administered by trustees other than the University with the University 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 the University is notified that funds have been put in a trust held by others with the University designated as beneficiary, contribution income 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 the University.

(l) *Self-Insurance Reserves*

The University is self-insured for workers' compensation, unemployment, dental and disability benefits. Annual provisions to adjust the reserve 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, 2007.

(m) *Asset Retirement Obligations*

In accordance with Financial Accounting Standards Board Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations, an Interpretation of FASB Statement No. 143*, the University 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.

(n) *Undistributed Estates*

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

(o) *Expenses*

Expenses are reported as decreases in unrestricted net assets.

(p) *Measure of Operations*

The change in net assets from operations reported in the statement of activities represents the excess of revenues, gains and support over expenses and losses exclusive of the portion of investment return designated by the University's Board of Regents for future years' operations and exclusive of revenues or expenses related to unusual or nonrecurring items. As to investment return, the board of regents designates only a portion of the University's cumulative investment return for support of current operations; the remainder is retained to function as funds functioning as endowments (i.e., quasi-endowment funds) in support of operations in future years and to offset potential market declines. Investment gain, net of distributions, consisting of the excess of investment return on endowment and quasi-endowment funds over the spending rate, is reported in other changes in net

UNIVERSITY OF THE PACIFIC

Notes to Financial Statements

June 30, 2007

(with comparative financial information
for the year ended June 30, 2006)

assets. All other realized and unrealized investment returns are reported as a component of the change in net assets from operations.

(q) Income Taxes

The University is tax exempt under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the Revenue and Taxation Code of the State of California and, generally, is not subject to state or federal taxes on income. However, the University 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.

(r) Use of Estimates

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

(s) Comparative Totals

The statement of activities includes 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 the University's financial statements for the year ended June 30, 2006 from which the summarized information was derived.

(2) Receivables

(a) Accounts Receivable

Accounts receivable as of June 30, 2007 and 2006 are without collateral and consist of (in thousands):

	<u>2007</u>	<u>2006</u>
Student accounts	\$ 2,025	1,909
Clinic	3,526	2,876
Government contracts and other	17,656	15,746
Total	<u>23,207</u>	<u>20,531</u>
Less allowance for doubtful accounts	<u>(1,503)</u>	<u>(1,703)</u>
Accounts receivable, net	<u>\$ 21,704</u>	<u>18,828</u>

UNIVERSITY OF THE PACIFIC

Notes to Financial Statements

June 30, 2007

(with comparative financial information
for the year ended June 30, 2006)

(b) Student Loans Receivable

Student loans receivable as of June 30, 2007 and 2006 are without collateral and consist of (in thousands):

	2007	2006
Federal government programs	\$ 31,278	29,140
Institutional programs	1,677	1,488
	32,955	30,628
Less allowance for doubtful loans	(800)	(867)
Student loans receivable, net	\$ 32,155	29,761

(c) Pledges Receivable

Pledges receivable as of June 30, 2007 and 2006 are without collateral and consist of (in thousands):

	2007	2006
Pledges to be collected:		
In one year or less	\$ 9,771	8,898
Between one year and five years	12,821	14,008
In more than five years	1,025	1,366
Total pledges	23,617	24,272
Less allowance for nonfulfillment	(2,037)	(1,137)
Less discount to present value at 2.27% to 6.05%	(1,946)	(2,804)
Pledges receivable, net	\$ 19,634	20,331

Pledges receivable as of June 30, 2007 and 2006 will, when collected, have the following restrictions (in thousands):

	2007	2006
Endowment with earnings expendable for departmental programs and activities	\$ 6,425	6,463
Endowments with earnings expendable for scholarships	794	951
Building construction	7,325	6,770
Departmental programs and activities	5,090	6,147
	\$ 19,634	20,331

UNIVERSITY OF THE PACIFIC

Notes to Financial Statements

June 30, 2007

(with comparative financial information
for the year ended June 30, 2006)

(3) Investments

Investments as of June 30, 2007 and 2006 consist of (in thousands):

		2007	2006
Treasury mutual funds and other short-term investments	\$	76,011	49,823
Long-term government and corporate bonds		104,685	119,309
Corporate stocks and mutual funds		127,626	112,236
Hedge funds and private equity		24,424	13,498
International stocks and mutual funds		33,680	22,340
Assets held by other trustees		1,764	1,623
Real and personal properties		269	559
Total	\$	368,459	319,388

Investments include \$22,317,000 and \$20,543,000 held under split-interest trust agreements as of June 30, 2007 and 2006, respectively. Bond proceeds included in investments and restricted for construction were \$21,948,000 and \$23,204,000 as of June 30, 2007 and 2006, respectively.

Hedge funds and private equity investments include hedge funds of \$19,735,000 and private equity investments of \$4,689,000. The University is obliged under certain investment contracts to periodically advance additional funding up to contractual levels. At June 30, 2007, the commitment to make such additional investments approximated \$10,515,000.

The following summarizes the investment return during the year ended June 30, 2007 and its classification in the statement of activities (in thousands):

		Total	Unrestricted	Temporarily restricted	Permanently restricted
Dividends and interest	\$	11,672	10,624	1,048	—
Realized and unrealized gain on investments		25,810	25,742	68	—
Total investment return, net	\$	37,482	36,366	1,116	—
Investment return distributed	\$	15,067	13,951	1,116	—
Investment gain, net of distributions		22,415	22,415	—	—
Total investment return, net	\$	37,482	36,366	1,116	—

UNIVERSITY OF THE PACIFIC

Notes to Financial Statements

June 30, 2007

(with comparative financial information
for the year ended June 30, 2006)

The following summarizes the investment return during the year ended June 30, 2006 and its classification in the statement of activities (in thousands):

	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>
Dividends and interest	\$ 7,926	7,249	677	—
Realized and unrealized gain on investments	<u>12,497</u>	<u>12,497</u>	<u>—</u>	<u>—</u>
Total investment return, net	<u>\$ 20,423</u>	<u>19,746</u>	<u>677</u>	<u>—</u>
Investment return distributed	\$ 11,233	10,556	677	—
Investment gain, net of distributions	<u>9,190</u>	<u>9,190</u>	<u>—</u>	<u>—</u>
Total investment return, net	<u>\$ 20,423</u>	<u>19,746</u>	<u>677</u>	<u>—</u>

Pooled Funds

Endowment and similar funds assets are generally pooled on a unit-market-value basis. Funds are added to the pool at the unit-market value at the beginning of the three-month period after which the transaction takes place. Funds withdrawn are valued at the unit-market value at the end of the most recent three-month period. Pooled funds as of June 30, 2007 and 2006 consisted of:

	<u>2007</u>	<u>2006</u>
Investments in pooled funds, at fair value	\$ 210,813,000	186,342,000
Total number of units	88,388	88,607
Fair value per unit	\$ 2,385	2,103

Professional fees for management of the pooled investments are recorded against investment returns and amounted to approximately \$1,062,000 and \$1,134,000 for the years ended June 30, 2007 and 2006, respectively.

UNIVERSITY OF THE PACIFIC

Notes to Financial Statements

June 30, 2007

(with comparative financial information
for the year ended June 30, 2006)

(4) Fixed Assets

Fixed assets as of June 30, 2007 and 2006 consist of (in thousands):

	2007	2006
Land	\$ 6,247	6,247
Buildings	233,137	229,068
Equipment	48,013	44,658
Library books and collections	29,028	27,479
Construction in progress	16,070	7,325
Improvements other than buildings	1,192	1,192
	333,687	315,969
Less accumulated depreciation	(151,254)	(139,329)
	\$ 182,433	176,640

(5) Long-Term Debt

Long term debt as of June 30, 2007 and 2006 consist of (in thousands):

	2007	2006
Bonds payable:		
California Educational Facilities Authority (CEFA)		
Project Revenue Bonds:		
Series 1997A, 4.350-5.450%, due in 2013	\$ 3,270	4,120
Series 1998, 3.650-5.000%, due 2018 to 2023	10,755	11,005
Series 2000, 5.750-5.875%, due 2020 to 2030	12,710	12,710
Series 2004, 3.500-5.250%, due 2005 to 2034	10,445	11,040
Series 2006, 4.750-5.000%, due 2007 to 2036	76,515	77,180
	113,695	116,055
Unamortized premium on bonds	1,333	1,369
Total bonds payable	115,028	117,424
Notes payable:		
California Educational Facilities Authority (CEFA)		
Master Lease with Option to Purchase Agreements:		
Series 2003, 2.87%, due in 2009	378	621
Series 2007, 3.95%, due in 2014	4,250	—
	4,628	621
Total notes payable	4,628	621
	\$ 119,656	118,045

UNIVERSITY OF THE PACIFIC

Notes to Financial Statements

June 30, 2007

(with comparative financial information
for the year ended June 30, 2006)

Scheduled maturities of long-term debt are (in thousands):

	Bonds	Notes	Total
Year ending June 30:			
2008	\$ 2,240	789	3,029
2009	2,350	688	3,038
2010	2,470	582	3,052
2011	2,610	605	3,215
2012	2,190	629	2,819
Thereafter	101,835	1,335	103,170
	\$ 113,695	4,628	118,323
Plus net unamortized premium			1,333
			\$ 119,656

California Educational Facilities Authority (CEFA) Project Revenue Bonds

In June 2006, the University issued CEFA Revenue Bonds, Series 2006 in the amount of \$77,180,000. Such bonds are payable in varying annual installments through 2036 with interest paid semiannually at rates ranging from 4.75% – 5.00%. After original issue premium and costs of issuance, net proceeds of \$29,470,335 were deposited into an irrevocable trust for the purpose of funding payments of principal and interest on the University’s Series 2000 Bonds; \$24,059,525 were deposited into an irrevocable trust for the purpose of funding payments of principal and interest on the University’s Series 2002 Bonds and \$24,000,000 will be utilized for various construction projects.

In August 2004, the University issued CEFA Revenue Bonds, Series 2004 amounting to \$11,500,000. Such bonds are payable in varying annual installments through 2034 with interest paid semiannually at rates ranging from 3.500% – 5.250%. After original issue premium, underwriters discount, and other costs of issuance, net proceeds of \$11,470,000 will be utilized for facility and equipment upgrades and renovations.

In June 2000, the University issued CEFA Revenue Bonds, Series 2000 amounting to \$41,000,000. Such bonds are payable in varying annual installments through 2030 with interest paid semiannually at rates ranging from 5.750% – 5.875%. Net proceeds of \$14,723,000 were placed in an irrevocable trust for the sole purpose of funding payments of principal and interest on the Series 1993 B Bonds.

In June 1998, the University issued CEFA Revenue Bonds, Series 1998 amounting to \$12,500,000. Such bonds are payable in varying annual installments through 2023 with interest paid semiannually at rates ranging from 3.65% to 5.00%. The net proceeds, after deducting issuance costs, amounted to approximately \$11,926,000.

In April 1997, the University participated in the issuance of CEFA Revenue Bonds, 1997 Series A and B. The University’s portion of the bonds amounted to \$9,570,000 of Series A bonds. Upon issuance of the CEFA 1997 Series A bonds, the net proceeds were used to purchase U.S. government securities, which

UNIVERSITY OF THE PACIFIC

Notes to Financial Statements

June 30, 2007

(with comparative financial information
for the year ended June 30, 2006)

securities were placed into an irrevocable trust for the sole purpose of funding payments of principal and interest on the University's CEFA Series 1986 and 1987 bonds.

The University must maintain a ratio of unrestricted and temporarily restricted assets (as defined in the loan agreements) to debt outstanding (as defined in the loan agreements) of at least 2:0 under the Series 1997A and 1998 bonds. The applicable agreements place certain other restrictions on the University, including cash reserve requirements for sinking funds.

The University has pledged as collateral a portion of its gross revenues equal to the annual payments on its CEFA bonds as they become due. Obligations under the 1997 Series A (Series B and A) loan agreements are several with other Series B and A borrowers, and no Series B and A borrower will be responsible for the default of another Series B and A borrower except to the extent of amounts in a borrowers Bond Reserve Fund (approximately \$476,000 for the University as of June 30, 2007). The University is not aware of any default by any Series B or A borrower.

California Educational Facilities Authority (CEFA) Master Lease with Option to Purchase Agreements

In June 2007, the University completed equipment acquisition financing through CEFA. The amount of this commitment, secured by the equipment, is payable in semi-annual installments through 2014 at an interest rate of 3.94% per annum. Under the terms of the financing agreement, the University may borrow up to \$4,250,000 to finance the purchase of capital equipment.

In September 2003, the University completed equipment acquisition financing through CEFA. The amount of this commitment, secured by the equipment, is payable in semi-annual installments through 2009 at an interest rate of 2.87% per annum. Proceeds of \$1,200,000 were used to finance the purchase of capital equipment.

(6) 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 fund retirement benefits for educational institutions. Under this arrangement, the University and plan participants make monthly contributions to TIAA-CREF to fund retirement benefits, which are immediately vested with the employee. The University's share of the cost of these benefits for the years ended June 30, 2007 and 2006 was approximately \$8,765,000 and \$7,735,000, respectively.

(7) Contingencies

The University 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 the University.

The University receives funding or reimbursement from governmental agencies for various activities which are subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations can be subject to government review and interpretation, as well as

UNIVERSITY OF THE PACIFIC

Notes to Financial Statements

June 30, 2007

(with comparative financial information
for the year ended June 30, 2006)

regulatory actions. Recently, government activity has increased with respect to investigations and allegations concerning possible violations by university healthcare providers of regulations which could result in the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. The University is subject to such regulatory reviews and, while these reviews may result in repayments and/or civil remedies, management believes based on its current knowledge and information, that such repayments and/or civil remedies would not have a material effect on the University's financial position,

(8) 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

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

(b) Loans Receivable

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

(c) Investments

The fair value of investments is estimated based on quoted market prices for those investments that are invested in actively traded securities. For other investments for which there are no quoted market prices, an estimate of the amount that could be realized in a sale is made by management. As of June 30, 2007, management believes the fair value of all investments for which there are no quoted market prices approximates the carrying value.

(d) Long-Term Debt

The fair value of the University's long-term debt is estimated based on the current rates available to the University for debt of the same remaining maturities. As of June 30, 2007, the fair value of the University's notes and bonds approximates \$120,000,000.

UNIVERSITY OF THE PACIFIC

Notes to Financial Statements

June 30, 2007

(with comparative financial information
for the year ended June 30, 2006)

(9) Leases

The University is obligated under various capital leases for equipment that expire at various dates during the next five years. As of June 30, 2007 and 2006, the gross amount of equipment recorded under capital leases was as follows (in thousands):

	2007	2006
Equipment	\$ 2,475	2,058
Less accumulated depreciation	(1,716)	(1,342)
	\$ 759	716

Future minimum capital lease payments as of June 30, 2007 are as follows (in thousands):

	Capital leases
Fiscal year ending June 30:	
2008	\$ 394
2009	127
2010	114
2011	72
Total minimum lease payments	707
Less amounts representing interest	(52)
Present value of net minimum capital lease payments	\$ 655

UNIVERSITY OF THE PACIFIC

Notes to Financial Statements

June 30, 2007

(with comparative financial information
for the year ended June 30, 2006)

(10) Composition of Net Assets

The composition of the categories of net asset as of June 30, 2007 and 2006 consists of (in thousands):

	2007	2006
Unrestricted net assets:		
Undesignated net assets	\$ 11,857	10,604
Designated for specific purposes	94,128	80,020
Quasi-endowment and accumulated gains on permanent endowments whose income is unrestricted	88,717	69,182
Investment in fixed assets, net of long-term debt	66,518	59,216
	261,220	219,022
Temporarily restricted net assets:		
Amounts restricted by donors for programs	13,818	10,395
Amounts restricted by donors for investment in plant	13,145	16,160
Pledges receivable for programs	5,090	6,147
Pledges receivable for investment in plant	7,325	6,770
	39,378	39,472
Permanently restricted net assets:		
Permanent endowment and similar funds	124,045	119,147
Pledges receivable for permanent endowment	7,219	7,414
	131,264	126,561
	\$ 431,862	385,055

UNIVERSITY OF THE PACIFIC

Notes to Financial Statements

June 30, 2007

(with comparative financial information
for the year ended June 30, 2006)

(11) Expenses by Function

Expenses by functional classification after allocating operations and maintenance of plant, depreciation expense, and interest expense are as follows for the years ended June 30, 2007 and 2006 (in thousands):

	<u>2007</u>	<u>2006</u>
Instruction and departmental research	\$ 124,277	118,262
Auxiliary enterprises	25,439	24,288
Sponsored programs	36,149	34,931
Academic support	21,919	20,716
Student services	17,745	16,797
Student aid	2,276	2,160
General administration	12,498	11,974
Fundraising activities	10,050	9,843
	<u>\$ 250,353</u>	<u>238,971</u>

(12) Related Party Transactions

Included in revenues for the years ended June 30, 2007 and 2006, are contributions from board of regents members totaling \$1,207,000 and \$1,063,000, respectively.

Included in pledges receivable for the years ended June 30, 2007 and 2006, are pledges from members of the board of regents totaling approximately \$4,085,000 and \$4,749,000, respectively, net of time value discount.

A member of the University's Board of Regents is also an officer of a bank that provides the University general banking services. Additionally, the trust department of the bank is an investment custodian of invested assets of approximately \$281,000,000 and \$250,000,000, respectively. The invested assets include assets of the University and of trusts for which the University serves as trustee.